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ANGUS. STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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3
4 SUBMISSION

5 TO

6
7 THE ROYAL COMMISSION ON TAXATION

8 RE

9
10 THE ESTATE TAX ACT

11 BRIEF

12 ON BEHALF OF

13
14 THE GOVERNORS OF THE UNIVERSITY

15 OF TORONTO

16
17
18
19
20 Cassels, Brock, Kelley,

21 Des Brisay & Guthrie,

22 Barristers and Solicitors,

23 165 University Avenue,

24 Toronto 1, Ontario.



1 A Brief for presentation to the Royal
2 Commission on Taxation at its public
3 hearings in Toronto, on the 22nd day of
4 May, 1963, with regard to the Estate
5 Tax Act, being Chapter 29 of the
6 Statutes of Canada 1958 and amendments
7 and particularly subsections (1) (d)
8 (1) and subsection (1a) of Section 7
9 as now constituted by virtue of amend-
10 ments made by 1960 c. 29 s. 4 (1) and
11 (2) and by 1962-63 c. 5 s. 2 (1) and
12 (2) which are set out below.

13
14 ESTATE TAX ACT, C. 29 (1958) AS AMENDED

15 "7.(1) For the purpose of computing the aggregate
16 taxable value of the property passing on the death of a
17 person, there may be deducted from the aggregate net
18 value of that property computed in accordance with
19 Division B such of the following amounts as are applicable:

- 20 (d) the value of any gift made by the deceased
21 whether during his lifetime or by his will,
22 where such gift can be established to have
23 been absolute and indefeasible, to
24 (1) any organization in Canada that, at the time
25 of the making of the gift and of the death of
26 the deceased, was an organization constituted
27 exclusively for charitable purposes, all or
28 substantially all of the resources of which
29 if any, were devoted to charitable activities
30



carried on or to be carried on by it or to the making of gifts to other such organizations in Canada, all or substantially all of the resources of which were so devoted, or to any donee described in subparagraph (11) and no part of the resources of which was payable to or otherwise available for the benefit of any proprietor, member or shareholder thereof, or

(1a) For the purposes of paragraph (d) of subsection (1), where any gift as made by the deceased during his lifetime or by his will,

- (a) subject to a power in favour of any person to appoint the donee or donees thereof, or
- (b) subject to a power in favour of any person to appropriate the whole or any part thereof for his own use or benefit,

to the extent that the power described in paragraph (a) was exercised not later than two years after the death of the deceased in favour of a donee described in paragraph (d) of subsection (1), the gift so made by the deceased shall not, by reason only of having been made as described in paragraph (a), be considered not to have been absolute and indefeasible and shall be deemed to have been made by the deceased to that donee, and to the extent of any estate or interest of a donee described in paragraph (d) of subsection (1) in the property comprised therein



1 that became absolute and indefeasible by
2 virtue of the renunciation of the power de-
3 scribed in paragraph (b) not later than two
4 years after the death of the deceased, the
5 gift so made by the deceased shall be deemed
6 to have been absolute and indefeasible "

7 The Minister interprets the above provisions of
8 the Act as entitling him to assess estates coming within
9 the purview of the Act in such a manner that the following
10 situation is created.

11 1. Where a testator makes a gift by his will to a
12 charitable institution, for the purpose of determining
13 the aggregate taxable value of his estate this gift may
14 be deducted only if it is absolute and indefeasible; the
15 Minister will not permit the deduction unless the value
16 of the gift can be absolutely determined as of the death
17 of the testator. In many wills the testator gives the
18 whole or part of the residue of his estate to a charit-
19 able institution subject to a life interest in favour of
20 his widow or other beneficiaries (usually relatives).
21 Such beneficiaries are naturally considered the testator's
22 primary responsibility, and because of the uncertainty
23 of the future needs of these beneficiaries it is customary
24 to add a clause stating that in cases of need and at the
25 discretion of the executors there may be an encroachment
26 on the capital of the fund for their benefit.

27 2. In the situation outlined above, the Minister
28 takes the position that the gift to the charitable in-
29 stitution cannot be deducted for the purpose of determin-
30 ing the aggregate taxable value of the estate. The power



1 to encroach on the capital means that at the time of the
2 testator's death it is impossible to determine the amount
3 of the gift to the charitable institution and conceivably
4 the charitable institution may receive nothing if the
5 whole fund has been used up by encroachments. The
6 Minister, instead of leaving the estate open so that tax
7 may be levied in accordance with what actually happens
8 during the life tenancy, makes his assessment as of the
9 date of death and treats the power of encroachment for
10 purposes of taxation as an absolute gift to the life
11 tenant.

12 3. It is respectfully submitted that the application
13 of the above provisions of the Act is inequitable and
14 unjust and frequently results in the expressed wishes of
15 a testator being defeated.

16 As mentioned above the testator's primary
17 desire and intention is to protect the recipient of the
18 income but because of his uncertainty as to the adequacy
19 of such income he wishes resort to be had to capital if
20 in the opinion of his trustees this is necessary for the
21 making of proper provision for the recipient of the
22 income. The limited power of renunciation does little
23 to remedy the situation as it is usually impossible to
24 tell at the end of two years from the testator's death
25 the extent of the encroachment which may subsequently
26 have to be made to carry out the testator's wishes. It
27 is not suggested that in the case of a power in favour of
28 any person to appropriate the whole or any part of the
29 capital of a fund for his own use or benefit this should
30 not be taxes as an outright gift of the capital to such



1 person. However, in most cases the discretionary power
2 to encroach is vested in the trustees who or some of whom
3 are not the beneficiaries under such power of encroach-
4 ment. In such cases the trustees cannot be expected to
5 renounce in whole or in part the right to encroach without
6 consulting the beneficiary of the power. In these
7 circumstances the beneficiary is asked to make a decision
8 which, if it involves a renunciation in whole or in part
9 of the right to encroach, runs contrary to the intention
10 and desire of the testator. Such a suggestion by trustees
11 places them in an impossible situation wholly inconsistent
12 with their duties as trustees and one which may result
13 in gross injustice to the beneficiary who is asked to
14 concur in such renunciation.

15 4. It is respectfully submitted that the situation
16 created by the provisions of the Act set out above
17 results in hardship to both personal beneficiaries and
18 to the charitable institutions which the testator wished
19 to be the object of his bounty.

20 5. In other jurisdiction similar situations under
21 wills and trusts are dealt with by the simple expedient
22 of taxing on the basis of what actually happens in the
23 administration of the fund. In Ontario for example the
24 estate is kept open during the life tenancy and tax
25 imposed on the termination thereof in accordance with
26 the encroachments, if any, on capital which have actually
27 been made. In order to ensure that tax will be recovered
28 in accordance with what has actually taken place in the
29 administration of the trust, the Province retains control
30



1 of sufficient assets or accepts a deposit by way of
2 security for payment in due course of the appropriate
3 amount of tax.

4 6. To indicate the injustice which has arisen under
5 the administration of the Estate Tax Act, we might cite
6 the fact that in several estates in which there has been
7 no encroachment whatever on capital, the estate has been
8 assessed as if the fund went outright to the life tenant.

9 It is respectfully recommended that the Estate
10 Tax Act be amended to provide that where there is a power
11 to encroach on the capital of a fund with the residual
12 gift of that fund to a charitable institution, the
13 estate be kept open until the life interest in the fund
14 has terminated. Security could be required to the
15 maximum extent of the tax payable in the event of en-
16 croachment to the full extent of the power being exercised.
17 This would result in no unfairness to the government but
18 would constitute a fair and equitable solution of the
19 problems involved and the carrying out of the wishes of
20 the testator. Without some such remedy, not only will
21 the testator's wishes be defeated and charitable in-
22 stitutions deprived of their intended benefits but bene-
23 factors will be less likely to make charitable gifts if
24 they realize that taxes will be levied as if such gifts
25 were not charitable in nature.

26 All of which is respectfully submitted this
27 9th day of May, 1963.

28 The Governors of the University of Toronto,
29 By thier solicitors,

30 "Cassels, Brock, Kelley, Des Brisay & Guthrie"



SUBMISSION

BY

J. S. ROBBINS, SALES TAX CONSULTANT

75 GRANT BOULEVARD,

DUNDAS, ONTARIO.

April 16th, 1963.

Royal Commission on Taxation,

P.O. Box 466,

OTTAWA, Ontario.

Gentlemen:

In my letter addressed to your Secretary, under date of October 31st, 1962, I expressed the desire to make a submission to you with respect to the application of sales and excise taxes imposed under the Excise Tax Act.

In conformity with the procedure adopted by the Commission, established in accordance with the provisions of the Inquiries Act by Order-in-Council P.C. 1962-1334, dated 25th, September 1962, I submit below my remarks for your consideration:-

First - I wish to state that I served as an Excise Tax Auditor in the Department of National Revenue for 34 years, the last five of which I was a Special Excise Tax Auditor in charge of the Hamilton Audit Office.
Section - 1.

In this submission I choose to deal with :-

- (a) the distribution of burdens among taxpayers
resulting from existing rates, exemptions,



1 reliefs and allowances provided in sales and
2 excise taxes.

3 (f) the changes that may be made to achieve
4 greater clarity, simplicity and effectiveness
5 in the tax laws or their administration.

6 Section -2- In June 1930 the rate of sales tax was 1%.

7 With expenditures rising and tax yields declining the
8 Government increased the rate to 4% in June 1931. In
9 1932 it was again increased to 6% and in 1936 it was
10 increased to 8%. There were many changes made in the Act
11 during World War II when many items were again added to
12 the taxable list. After World War II the rate of 8%
13 remained but a number of items were placed on the exempted
14 list. In 1951 when the Government was confronted with
15 heavy defence expenditures it was decided to introduce an
16 Old Age Security Tax, which was set at 2%, making a
17 combined sales tax of 10%. This rate remained unchanged
18 until April 1959 Budget, when the Old Age Security Tax
19 was increased to 3%, making the combined sales tax 11%,
20 as it stands today.

21 A bad feature of this 11% tax, as I see it,
22 is the only 50% of industry in Canada to-day is paying
23 sales tax.

24 Section 30 of the Excise Tax Act states that
25 this tax of 11% shall be imposed, levied and collected
26 on all goods produced or manufactured in Canada, payable
27 by the producer or manufacturer at the time when the goods
28 are delivered to the purchaser or at a time when the
29 property in the goods passes whichever is the earlier.

30 Strange to say, 5 major industries in Canada



1 have not been required to account for this tax. They are:-

2 (1) Agricultural implement manufacturers.

3 (2) Chemical fertilizer manufacturers.

4 (3) Building material manufacturers.

5 (4) Canned foods manufacturers.

6 (5) Fancy biscuit manufacturers.

7 Favoured groups such as these should have no
8 place in the economy of this country.

9 Regarding the favoured groups mentioned above,
10 I could never understand why a man raising a family
11 should be required to pay sales tax of 11% on shoes and
12 clothing for his children when a building contractor is
13 permitted to buy building materials of all kinds free of
14 sales tax. To use the argument that to put sales tax on
15 building material would increase the cost of houses for
16 people in the low income bracket, is, in my opinion, sheer
17 nonsense. I happen to know that a deputation of lumbermen
18 which went to Ottawa in 1945 to demand that sales tax be
19 removed from building materials, used this argument.
20 Within a month after the Department had acceded to their
21 wishes and taken the tax off building materials their
22 prices were increased 20%. This fact is a clear indica-
23 tion that the manufacturers of building materials did not
24 have the interests of the small home owner at heart when
25 they asked for this exemption.

26 When I was working for the Government, in the
27 capacity of an Excise Tax Auditor, I drew the Department's
28 attention on numerous occasions to the fact that these
29 manufacturers of building materials were underpaying the
30 sales tax by using an inter-association price, for sales



1 tax purposes, instead of paying the sales tax on dealer
2 price which they were required to do. The Government in
3 power at that time, took no action in the matter but
4 shortly after a change of Government, they were fined
5 \$10,000.00 each for violation of the Combines Act.

6 The statements I have made here are on record
7 in Hansard if you wish to have them checked.

8 If the rate of tax were reduced to 6%, divided
9 as 3% Sales Tax and 3% Old Age Security Tax and was
10 applied against all goods produced or manufactured in
11 Canada, as the Act states, the companies mentioned in
12 this category would be required to pay their fair share
13 of sales tax, thereby increasing the revenue of the
14 Government by several millions of dollars yearly.

15 I realize that the farmer would complain bitter-
16 ly about being taxed for his implements but I see no
17 reason why he should not pay Old Age Security Tax, for
18 when he reaches the age of 70 years he will get his pen-
19 sion cheque from the Government, whether he has paid into
20 it or not.

21 The canned foods and fancy biscuit manufacturer's
22 products are, more or less, luxury foods and should be
23 taxed at the rate of 6%, as outlined above.

24 Section - 3.

25 Another important matter I would like to bring
26 to your attention at this time, is the importation of
27 huge quantities of yarns which are brought into Canada
28 under the following classifications:-

29 (1) Wool yarn

30 (2) Worsted yarn



1 (3) Synthetic yarn

2 Some of these yarns are balled and labelled when they
3 enter Canada and some are balled and labelled in Canada
4 by the importers who do not operate under a sales tax
5 license and are required only to pay sales tax on the
6 duty paid value at time of importation, whereas the tex-
7 tile manufacturers in Canada are required to account for
8 the sales tax on the seeling price of the yarns which
9 they package and sell to the Canadian trade. Such a
10 procedure places the textile manufacturer in Canada at
11 a decided disadvantage and in a number of cases it has
12 worked such hardship on the manufacturer that he has been
13 forced out of business. Furthermore, there is nothing
14 in the Act which states that packaging of yarn is a form
15 of manufacture.

16 In the light of these facts, I think it is high
17 time that this matter should be considered in its true
18 perspective and acted on accordingly for the protection
19 of the textile industry in this country.

20 Section - 4.

21 While employed in the Service my attention was
22 frequently called to the authorization in the Regulations
23 issued by the Department of National Revenue of various
24 forms of certificates of exemptions taxpayers were
25 permitted to use which were not only confusing to the
26 taxpayers but which lead to considerable abuse. The
27 certificates to which I refer are to be found on page 10
28 of the Regulations pertaining to Sales and Excise Taxes --
29 Circular E.T.1 Section 11 (6) and (7) - April 1961.

30 I noticed also a considerable abuse of the



1 Regulations dealing with the purchase of pipe, pipe
2 fittings and valves, as well as electric wire and cable
3 by manufacturers for their own use in their manufacturing
4 establishments, as set forth on page 10 and 11 of the
5 Regulations referred to above.

6 To add to the confusion the Department of
7 National Revenue has recently issued rulings which state
8 that if the manufacturers would invoice their valves as
9 controls or regulators their customers would not be
10 required to pay the sales tax at time of purchase of same.

11 To correct this situation, with which I have had
12 considerable experience both inside and outside of the
13 Service, I would suggest that, for the protection of the
14 revenue of the Government, all manufacturers should be
15 required to pay the sales tax at time of purchase, subject
16 to refund through the medium of a refund claim.

17 I trust that the information I have provided
18 herein may, in a small measure at least, contribute to
19 the improvement in the taxation structure, particularly
20 in the field of sales and excise taxes.

21 Respectfully submitted,

22 J. S. Robbins.
23
24
25
26
27
28
29
30



ANGUS, STONEHOUSE & CO. LTD
TORONTO, ONTARIO

1 S U M M A R Y of the Submission to the Royal Commission
2 on Taxation by the National Executive
3 Committee, Communist Party of Canada.
4

5 1. The primary purpose of taxation is to channel the
6 necessary flow of revenue to governments. But this
7 purpose cannot be considered apart from the
8 responsibility of governments for measures aimed at
9 the redistribution of a part of the national income
10 in order to increase purchasing power, expand social
11 capital and influencing the level of economic activity
12 in general.
13

14 2. We have failed to keep our constitutional
15 distribution of taxing powers abreast of the
16 country's development and the resulting demand upon
17 governments. The cost of services now assigned to
18 provinces and municipalities are much beyond their
19 means of taxation and are becoming more
20 disproportionate to the central government's
21 responsibilities and powers and means of taxation.
22 Canada urgently needs a new constitution written in
23 this country and corresponding clearly with the
24 national, economic and political realities of this
25 country. Such a made-in-Canada constitution would
26 need to re-define the powers and responsibilities
27 of our federal structure so as to confirm the
28 national authority of the people of Quebec within
29 their province as well as defining the necessary
30 powers of provincial governments in all other



1 provinces.

2 3. There are certain tax-supported services which can
3 be operated effectively only by the central
4 government. We now have family allowances, old age
5 pensions and unemployment insurance. There is a
6 necessity for a comprehensive national plan for
7 free medical service and a guarantee that every
8 child shall enjoy equal opportunity for primary and
9 secondary education.

10 4. Far greater progress could have been made in these
11 directions if it had not been for the federal
12 government's heavy commitments to defense
13 expenditures which are now widely seen to have been
14 both unnecessary and wasteful.

15
16 A. TAXATION AND FEDERAL PROVINCIAL RELATIONS

17 5. Steps to bring about far reaching changes in the
18 distribution of fiscal responsibility as between
19 levels of government need not await the drafting
20 of a new constitution.

21
22 6. Because of its inseparable relationship to the
23 interest of Canada as a whole as well as because the
24 cost of adequate education is beyond the resources
25 of the majority of municipalities, the Communist
26 Party contends that the cost should become a national
27 responsibility paid out of the tax revenue of the
28 federal government.

29 7. The administration of education must continue to be
30



1 a responsibility of the provincial governments, with
2 the federal government making the necessary transfer
3 payments as a statutory and irrevocable right.

4
5 8. The Communist Party further advocates a comprehensive
6 national health plan, 80 per cent of the cost of
7 which should be carried by the federal government.

8 9. It should be possible to achieve federal-provincial
9 agreement upon a basic minimum level of social
10 services.

11
12 10. The relief afforded to provinces and municipalities
13 will enable those governments to assume responsibility
14 for a wide range of new and much needed expenditures
15 on such things as public works, urban development
16 and highways.

17 11. These possibilities will be further enlarged by the
18 establishment of a federal authority to provide
19 loans to municipal governments at low interest rates,
20 thus freeing them from the necessity of seeking
21 costly loans from private sources, frequently in
22 the U.S.A.

23 12. We do not consider it necessary to attempt here to
24 define precise formulas which might guide federal
25 and provincial governments in respect to the re-
26 allocation of responsibilities and costs which we
27 propose, although we wish to emphasize our opposition
28 to the discriminatory practice of "matching grants".
29
30



B. A DEMOCRATIC TAX SYSTEM

13. A certain minimum standard of life should be available to all as the necessary basis for the health and progress of the Canadian people. Any tax which reduces the living standard below such a level contradicts the principle of ability to pay and is regressive.
14. To actually apply the principle of ability to pay to taxation requires that the present method of assessment for taxation be replaced by a more equitable and efficient system.
15. This necessity is illustrated by the following:
 16. a) There is widespread evasion of taxation on high income and profits.
 17. b) Increase in net worth is exempt from taxation.
 18. c) Foreign owners when they withdrew their earnings from Canada do not pay income tax on the same basis as do Canadian residents.
 19. d) Extensive use of "tax incentives" circumvent the tax regulations.
 20. e) Big accumulations of capital are "shielded" from taxation by proclaiming them to be "foundations".
21. A serious effort to apply the principle of taxation according to ability to pay will include measures to ensure that all such loopholes as noted above be stopped up and all income derived in Canada, above the amount of the exemptions, pay income tax on a completely equal basis.



22. The deductions for advertising expenditures by corporations should be limited to an amount equal to five per cent of operating costs.
23. We favor the maintenance of the exemption upon patronage dividends distributed by co-operatives.
24. Steps should be taken to relieve the burden of taxation upon those in the lower income brackets through the following:
 - a) Increase the basic income tax exemption to \$2,000 for single persons, \$3,000 for married persons.
 - b) Allow as deduction from taxable income university fees, cost of special care for mentally or physically ill children, and costs of child care of mothers working full time.
 - c) Allow as deduction from taxable income, taxes paid upon homes of assessed value not exceeding \$5,000 occupied by their owners.
28. The present application of the Succession Duties Tax is discriminatory because of the development of the corporate structure.
29. The Communist Party proposes that there be instituted and annual tax on capital gains, both realized and unrealized, which are enjoyed by every person and every corporation that invests or engages in productive, commercial, financial or other activities for gain in Canada.
30. Sales taxes upon consumer goods are inequitable and in our view should be abolished as quickly as possible.



31. Excise taxes should be levied only on "value added"
at each stage of production and distribution.

* * * * *



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

SUBMISSION

TO:

THE
ROYAL
COMMISSION
ON
TAXATION

*

BY THE

National Executive Committee
COMMUNIST PARTY OF CANADA

*

April 22, 1963.



A NEW DEAL FOR CANADIAN TAXPAYERS

Submission to the Royal Commission on Taxation
by the National Executive Committee, Communist
Party of Canada.

.

Mr. Chairman and Members of the Commission:

1. Permit us first of all to express our keen appreciation of this public inquiry. The magnitude of the burden of taxation and its rapid growth during recent years make broad public participation in the study of this complex problem vitally important.
2. The primary purpose of taxation is to channel the necessary flow of revenue to governments. But this purpose cannot be considered apart from the responsibility of governments for measures aimed at the redistribution of a part of the national income in order to increase purchasing power, expand social capital and influencing the level of economic activity in general.
3. In our country there is a growing disproportion between the responsibilities of provincial and municipal governments and their sources of tax revenue. The new demands and needs that are created by the striking changes during this century are radically different from the demands and needs which existed at the time of the enactment of the



1 British North America Act in 1867.

2
3 4. We have failed to keep our constitutional distribution
4 of taxing powers abreast of the country's development
5 and its demand upon governments. The inescapable
6 necessity for a large measure of variation from the
7 provisions of the British North America Act has
8 been met, up to now, by a hodge-podge of expediences,
9 some of which at times resemble attempts to
10 circumvent the British North America Act by stealth.

11 5. We must, therefore, state our view that Canada
12 urgently needs a new constitution written in this
13 country, and corresponding clearly with the national,
14 economic and political realities of this country.
15 Such a constitution would need to affirm the two
16 nation character of the Canadian state with a clear
17 expression of the voluntary nature of the joint
18 participation of the French and English speaking
19 Canadian nations in this single state of the
20 Canadian people. It would need to re-define the
21 powers and responsibilities in our federal structure
22 so as to confirm the national authority of the people
23 of Quebec within their province, as well as defining
24 the necessary powers of provincial governments in
25 all other provinces. It must provide that the
26 people of Quebec shall share, on equal terms with
27 the people of the provinces of English speaking
28 Canada, the benefits of the growth of the country's
29 economy, trade and wealth.
30

1 The Communist Party contends that because of the
2 marked disparity in the resources, level of economic
3 development, and wealth of different provinces, there
4 are certain tax-supported services which can be
5 operated effectively only by the central government.
6 These are services essential to Canada's well-being
7 and democratic progress and which must be available
8 on completely equal terms to every Canadian. Three
9 obvious examples are family allowances, old age
10 pensions, and unemployment insurance. There is an
11 equally pressing necessity for a comprehensive
12 national plan for free medical service, and a
13 guarantee that every child in Canada shall enjoy
14 equal, full and untrammelled opportunity for primary
15 and secondary education.

16
17 7. Measures such as exemplified above or transfers of
18 revenue to make them possible do not contradict the
19 reality of the national control of French Canada
20 by its people, still less do they contradict the
21 principle of "provincial rights" in the conditions
22 to today.

23 8. We must make the observation that it is our opinion
24 that far greater progress could have been made
25 before now in meeting these fundamental needs of the
26 Canadian people had it not been for the federal
27 government's heavy commitments over the last 15
28 years to defense expenditures which are now widely
29 seen to have been both unnecessary and wasteful.
30



1 A. TAXATION AND FEDERAL PROVINCIAL RELATIONS

2 9. It should be made clear that the need for far
3 reaching changes in the distribution of fiscal
4 responsibilities as between levels of government in our
5 country flows not only from the anomalies in the British
6 North America Act. It also arises from the growing
7 contrast between the far-flung distribution of
8 productive operations and the increasing concentration
9 of control, including control in the hands of foreign
10 (mainly U.S. interests), and the consequent rise and
11 decline of industries. For example, it is quite
12 impossible for a small municipality to deal adequately
13 with the effects of a decline of a national industry.
14 It may well be that the decline which reduces that
15 municipality to a ghost town is but the obverse side
16 of a change which has increased substantially the wealth
17 and income of another community. We are witnessing
18 this development in relation to the problem of "run-away"
19 plants from Windsor, and the establishment of automotive
20 industry in other Ontario cities. On the other hand,
21 we also have the example of the decline of the war-
22 orientated uranium industry and the consequent
23 impoverishment of all areas dependent upon it -- such
24 as Elliot Lake.

25
26 10. Steps to bring about far reaching changes in the
27 distribution of fiscal responsibility as between levels
28 of government need not and indeed cannot await the
29 drafting of a new constitution. It is possible now to
30



1 negotiate mutually satisfactory agreements between
2 federal and provincial governments which would provide
3 for the assumption by the federal government of many
4 expenditures now falling upon provinces and municipalities.

5
6 11. The conditions which render it necessary to make our
7 education system available to all regardless of means
8 are radically different from the considerations which
9 prevailed a hundred years ago. A very large number of
10 municipalities are quite unable to provide a level of
11 education which corresponds with today's requirements,
12 and in all cases the burden upon home owners is becoming
13 extremely heavy. Because of its inseparable relationship
14 to the interest of Canada as a whole as well as because
15 the cost of adequate education is beyond the resources
16 of the majority of municipalities, the Communist Party
17 contends that its cost should become basically a national
18 responsibility, paid out of the tax revenue of the federal
19 government.

20 12. We hold at the same time, that the administration of
21 education must continue to be a responsibility of the
22 provincial governments, with the federal government
23 making the necessary transfer payments as a statutory
24 and irrevocable right.

25
26 13. The Communist Party further advocates a comprehensive
27 national health plan, 80% of the cost of which should be
28 carried by the federal government out of its general
29 revenues.
30



1 14. While it may not be possible at this time to achieve
2 agreement on measures that would equalize essential
3 provincial services, it should be possible to achieve
4 federal-provincial agreement upon a basis minimum level
5 that is necessary for the interests of Canada.
6 Responsibility for the cost of social services should be
7 reallocated by relating present day needs to the changes
8 in the distribution of industry and population. Medical
9 and hospital services should not be treated any longer
10 as though they were the responsibility of the
11 municipalities. Care of citizens who, for whatever reason,
12 are unable to work or collect unemployment benefits
13 should not be the responsibility of the municipalities.
14
15 15. The relief that will be afforded to provinces and
16 municipalities by such a reallocation of responsibilities,
17 will enable these governments to assume responsibility
18 for a wide range of new and much needed expenditures on
19 such things as public works, urban development and
20 highways. The effective independence - the "elbow room"
21 of the provincial and local governments will actually be
22 widened. These possibilities will be further enlarged
23 by the establishment of a federal authority to provide
24 loans to municipal governments at low interest rates,
25 thus freeing them from the necessity of seeking costly
26 loans from private sources, frequently in the U.S.A.
27
28 16. We have made the foregoing points having in mind
29 that the Terms of Reference of this Commission take "into
30 account also the jurisdiction and practices of the



1 provinces and municipalities", and to emphasize our
2 conviction that no considerations with respect to federal
3 taxation policies can leave out of the account the
4 responsibilities of the senior government to increase
5 its expenditures upon the needs of the Canadian people.
6

7 17. We do not consider it necessary to attempt here to
8 define precise formulas which might guide federal and
9 provincial governments in respect to the re-allocation
10 of responsibilities and costs which we propose, although
11 we would wish to emphasize our opposition to the
12 discriminatory practice of "matching grants". Our broad
13 general thinking on formulas was set forth in our
14 submission to the Royal Commission on Canada's Economic
15 Prospects.

16
17 B. A DEMOCRATIC TAX SYSTEM

18 18. Taxes which inflict hardships upon individuals and
19 their families are wrong. While the over-all tax load
20 is heavy, its incidence on the country's economy is not
21 such as to justify the imposition of taxes on people whose
22 incomes are already below the level that is required to
23 maintain their families in decency while providing their
24 children with opportunities for adequate education. All
25 such taxation is discriminatory and should be stopped.
26 the best interests of Canada will be served when the
27 main source of tax revenues shall be those incomes and
28 accumulations of wealth which are large enough so that
29 the amounts which remain after paying taxes are adequate
30 to cover all socially necessary spending.



19. Because interpretations of the principle of "ability to pay" may vary considerably we suggest the following guide lines for its application. A certain minimum standard of life should be available to all as the necessary basis for the health and progress of the Canadian people. Any tax which reduces the living standard of a section of the taxpayers, or an individual taxpayer, below such a level contradicts the principle of ability to pay and is regressive. A taxpayer who pays a personal income tax of \$8,570 on a taxable income of \$25,000 has \$16,430 left after paying the tax, but one who pays only \$610 on a taxable income of \$4,000 has only \$3,390, approximately \$65.20 per week, in spite of the fact that he was assessed at a lower rate. Obviously the taxpayer with the higher income is best able to pay. The different effect of taxation on small incomes and on substantial incomes illustrates the moral basis of the principle of ability to pay; but formal recognition of this is not enough.

20. To actually apply the principle of taxation according to ability to pay requires that the present method of assessment for taxation be replaced by a more equitable and efficient system. The necessity for this is illustrated by the following:

21. a. The income taxes due from wage and salary earners can be levied with exactitude. They are deducted in advance at the source, with the result that in contrast to those who have big incomes, wage and salary earners are deprived of the opportunity to make temporary use of



1 the money which finally goes to the payment of their
2 income tax in any fiscal year. In the case of seasonal
3 workers, overpayments through such tax deductions at
4 the source become in fact interest-free loans to the
5 state of money which a worker needs to provide for himself
6 and his family in the off season.

7
8 22. b. Taxes on high incomes and profits are open to
9 widespread evasion.

10 23. c. Increase in real worth which is not in the form
11 of wages or salaries or declared income is exempted from
12 taxation.

13
14 24. d. Foreign owners, (including parent companies) of
15 assets in Canada when they withdraw earnings from this
16 country do not pay income taxes on the same basis as do
17 Canadian residents.

18 25. e. The system (if it may be dignified by the term
19 "system") as it operates at present permits a Canadian
20 who has a very large income to establish official
21 residence abroad (in the Bahamas, for example) and thus
22 enjoy the same reduced rate of income tax as is allowed
23 foreign investors; while continuing to enjoy all the
24 rights of citizenship.

25 26. f. The extensive use of "tax incentives" to
26 corporations, such as depletion allowances, remission of
27 taxes, remission in proportion to increased sales -- all
28 these are questionable expedients by which the principle
29 upon which taxation is supposed to be based is
30



1 circumvented, and thereby undermined. For example,
2 who can believe that the super-profitable international
3 mining and smelting operation operated the by
4 International Nickel Company needed assistance to the
5 extent of millions from the Canadian government in the
6 form of depletion allowances to convince its United
7 States directors that it would be profitable to enlarge
8 operations. Such depletion allowances to mining and
9 oil companies favor the extended take-over of our natural
10 resources by the big U.S. companies which dominate
11 investment in this field. No comparable assistance is
12 available for the development of Canadian industry.

13
14 27. g. Big accumulations of capital are "shielded" from
15 taxation by proclaiming them to be "foundations". The
16 fact that those who direct the affairs of such "foundations"
17 use their funds to buy and sell securities, to increase
18 the wealth that they control, is in itself evidence that
19 this is in reality a corporate form in which great
20 accumulations of wealth continue to be a part of the
21 aggregate of Canadian capital. As such they should share
22 with other recipients of taxation the burden of taxation.

23 28. The above are but examples of the more evident
24 methods by which large incomes and accumulations of
25 capital are able to evade either part or the whole of
26 the taxes that should be paid. It is our contention that
27 a serious effort to apply the principle of taxation
28 according to ability to pay will include measures to
29 ensure that all such loopholes be stopped up and all
30



1 incomes derived in Canada, above the amount of the
2 exemptions in each case, pay income tax on a completely
3 equal basis. If governments are convinced that an
4 institution or an individual who derives income is
5 deserving of special financial treatment, such special
6 treatment should be in the form of a grant or rebate --
7 paid after the income tax has been collected.
8

9 29. As part of the objective of stopping up the numerous
10 loopholes by which income tax payments are reduced, the
11 Communist Party proposes that the regulation which now
12 enables corporations to secure exemption from payment
13 of corporation profits tax on very large amounts of
14 money disbursed for advertising, be rescinded or at least
15 drastically amended. Corporation profits taxes should
16 be paid on all profits made. If any deduction is to be
17 allowed on the ground of advertising expenditure, it
18 should be limited to an amount equal to five percent of
19 operating costs.

20 30. We should make clear at this point that we favor
21 the maintenance of the exemption upon patronage dividends
22 distributed by co-operatives.
23

24 31. The differential between the rate of income tax upon
25 residents of Canada, and the taxes paid by owners of
26 Canadian corporations living outside of Canada should be
27 abolished. Under the present arrangement foreign
28 investors and corporations withdrawing funds from their
29 Canadian operations pay to Canada only the flat 15%
30 withholding tax. This is completely inequitable to the



1 Canadian people, who have to maintain the governmental
2 services and other amenities which make Canada attractive
3 to foreign investors. The Communist Party contends that
4 all incomes, personal and corporate, derived from
5 personal investment or corporation operations in Canada
6 should pay income tax on exactly the same basis. The
7 present discrimination against Canadians should be ended.

8
9 32. If personal and corporate income taxes were
10 collected on the basis indicated in paragraphs 18 to 31
11 of this submission, the aggregate of all collections
12 from these sources would be considerably larger than at
13 present. In light of this, we would submit that steps
14 should be taken to relieve the burden of taxation upon
15 those in the lower income brackets, through the following:

16 33. a. Increase the basic income tax exemptions to
17 \$2,000 to single persons, \$3,000 for married persons.

18
19 34. b. Allow university fees to be deducted from
20 taxable income.

21 35. c. Allow the cost of special schooling or care of
22 children who are mentally or physically retarded as
23 deductions from taxable income.

24
25 36. d. Allow the cost of child care to mothers who work
26 full time to be deducted before her wages are assessed
27 for income tax.

28 37. e. Allow as deductible from taxable income, taxes
29 paid upon homes of assessed value not exceeding \$5,000,
30 occupied by their owners.



1 38. The principle that is implied in the Succession
2 Duties Tax is correct, but it must be stated with all
3 possible emphasis that the manner in which the tax has
4 been collected until now is, in effect, a contradiction
5 of this correct principle. First of all, the great
6 accumulations of wealth which exist today are held by
7 corporations, and therefore not accessible to succession
8 taxes. Secondly, individuals of considerable means are
9 impelled to incorporate their estate or even to
10 distribute it among their prospective heirs, so as to
11 avoid the tax. The result is that the proportion of the
12 capital invested in Canada which escapes the succession
13 duties tax is so large that returns from the tax bear
14 little relationship to the magnitude of the increase of
15 the wealth of Canada from generation to generation. This
16 makes the present application of the tax discriminatory.

17
18 39. Bearing in mind the above point, and in order
19 to suggest important new sources of revenue which could
20 be opened to the federal government, the Communist Party
21 proposes that there be instituted an annual tax on
22 capital gains, both realized, and unrealized, which are
23 enjoyed by every person and every corporation that invests
24 or engages in productive, commercial, financial, or other
25 activities for gain in Canada. Such a tax should be
26 levied on increases in the market value of securities
27 held by each individual, each corporation, each institution.
28 It should include within its scope every investor who
29 resides outside of Canada, and the owners of foreign-owned
30 corporations. It should be made compulsory for all



1 individuals, corporations and institutions to divulge
2 all holdings of fixed and liquid holdings, and increased
3 worth.

4
5 40. In case it should be questioned whether increased
6 taxation of big accumulations of capital and of capital
7 gains may discourage investment we must emphasize the
8 following:

9
10 41. a. The change that we are proposing is designed to
11 make subject to taxation substantial sources of wealth
12 which now go relatively tax free, and thereby to equalize
13 the incidence of the burden of taxation.

14 42. b. The record shows clearly that investment increases
15 when the economy is operating near capacity. During the
16 years 1940-45, Canada's economy was taxed more heavily
17 than ever but it grew more rapidly than ever before
18 because demand was continually ahead of supply and
19 industrial capacity. A form of taxation which does
20 inhibit economic growth and thereby investment is that of
21 taxes on the masses of consumers which reduce effective
22 public demand and thereby production.

23 43. The increased tax revenues which will derive
24 from introduction of the changes proposed in the preceding
25 paragraphs will make it possible to relieve the Canadian
26 people of some portion of the taxation of which, now, the
27 incidence is inequitable, and in effect discriminatory.

28
29 44. a. Sales taxes upon consumer goods are inequitable,
30



1 and in our view should be abolished as quickly as
2 possible.

3
4 45. b. Excise taxes should be levied only on the
5 "value added" at each stage of production and distribution,
6 from the manufacturer's price to the final sale to the
7 consumer. As operated at present, the excise taxes are
8 pyramided by duplication of taxes on components and
9 finished products, consumers are paying taxes on the
10 taxes previously paid, including taxes on profits at
11 each turn over.

12
13 46. These proposals to strengthen the methods of
14 collecting income tax and to eliminate evasion, to
15 widen the exemptions to people in lower income brackets,
16 to eliminate consumer sales taxes as rapidly as possible,
17 and to establish a new tax on realized and unrealized
18 capital gains, make up, in our view, the basis for a
19 democratic taxation system in Canada.

20 46. All of which is respectfully submitted.

21 National Executive Committee
22 Communist Party of Canada.

23 April 22, 1963

24 24 Cecil Street

25 Toronto 2-B, Ontario.
26
27
28
29
30

Status:

Name:

Date:

Address:

Time:

When required:

Phone:

Rec'd by:

Sources checked

QUESTION:

☐ DYH

☐ Address

ANSWER:

☐ Immediate

☐ Less than 30 min

☐ More than 30 min

Referred to:



1 neither necessary nor desirable.

2
3 5. Inequities also exist due to the fact that a
4 number of charities were granted exemption under the
5 Wartime Charities Act which has expired, and still retain
6 the privilege. But charities set up since the war to
7 raise funds for similar purposes may or may not be
8 granted exemption, according to the discretion of the
9 Minister. (See appendix B.)

10 6. A further inequity exists in that organizations
11 which raise money for a number of causes, some in Canada
12 and some abroad (i.e. churches, Y.M.C.A., Y.W.C.A.) may
13 issue receipts for income tax purposes, but an
14 organization set up for the specific purpose of aiding
15 one of these international charities, is not able to do
16 so, for example the Canadian Freedom from Hunger Committee.
17 (See appendix C.)

18
19 7. Since it has been Government policy for a number
20 of years now to contribute to foreign aid programmes,
21 Canadians should be encouraged to take an interest in and
22 support voluntary aid programmes. Canada strongly
23 supports the United Nations and it would therefore seem
24 logical that any fund raising in support of projects
25 initiated by the United Nations should be eligible for
26 tax deduction, e.g. UNICEF, UNESCO, Refugees, Freedom
27 from Hunger, etc. This would undoubtedly increase the
28 interest in and support of the United Nations amongst
29 the general public.



1 RECOMMENDATION

2
3 1. It is recommended that the Income Tax Act with
4 respect to exemptions be amended to include specifically
5 charities raising monies for use outside Canada, as well
6 as within Canada, provided of course, all other necessary
7 requirements are met and adequate safeguards taken to
8 ensure the proper handling of such funds.

9
10 2. In practice, if the Act were amended as
11 recommended, the increase in the amount of money deducted
12 would not likely be very large, because a number of
13 organizations now raising funds for use abroad have the
14 privilege of issuing deductive receipts.

15 3. It would however, make it possible for the
16 Department of National Revenue to administer the Act
17 in a fair and just manner. This is not possible at
18 present.

19
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30



APPENDIX A

1. The Income Tax Act, Section 62 (1) (e) defines a charitable organization as follows:

"A charitable organization, whether or not incorporated, all the resources of which were devoted to charitable activities carried on by the organization itself and no part of the income of which was payable to, or was otherwise available for the personal benefit of, any proprietor, member or shareholder thereof:"

2. Under Sec. 27 (1) (a) charitable donations are defined in part as follows:

"the aggregate of gifts made by the taxpayer in the year (and in the immediately preceding year, to the extent of the amount thereof that was not deductible under this Act in computing the taxable income of the taxpayer for that immediately preceding year) to charitable organizations in Canada exempt from tax..."

3. Information Bulletin No. 17 dated December 14, 1962 issued by the Department of National Revenue reads in part as follows:

"This bulletin is issued for the guidance of charitable organizations which issue receipts to donors to support the deduction provided by Section 27 (1) (a) of the Income Tax Act.

"To qualify for the deduction, the gift must have



1 been made to a charitable organization in
2 Canada as defined by Section 62 (1) (e), (f),
3 (g), and (ga), of the Income Tax Act.

4 Qualification as a charitable organization is
5 a matter of law and in doubtful cases the
6 Taxation Division is prepared to offer its
7 opinion on application. A form of application
8 may be obtained from the District Taxation
9 Office.

10 "The following donations do not qualify for
11 the deduction for tax purposes:

12 (a) donations to charitable organizations
13 outside Canada;"

14
15 4. It can be seen from the above that neither the
16 Act itself, nor the Information Bulletin specified that
17 funds raised may not be spent outside Canada - only that
18 the charitable organization must be in Canada.



APPENDIX B

1. The following are some of the charities which send money outside Canada, which are entitled to issue receipts for income tax purposes:

- Canadian Red Cross Society
- Canadian Save the Children Fund
- CARE of Canada
- Canadian Friends Service Committee
- Canadian University Service Overseas
- Unitarian Service Committee
- World University Service of Canada

2. It is extremely difficult to differentiate the above from those listed below in relation to the type of work they are doing, yet the following do not have deductibility:

- UNICEF (United Nations Children's Fund)
- UNESCO (United Nations Education, Scientific and Cultural Organization)
- UNHCR (United Nations High Commissioner for Refugees)
- UNRWA (United Nations Relief & Works Agency)
- (Canadian Freedom from Hunger Committee (working in connection with United Nations Food and Agriculture Organization)).



APPENDIX C

1. During World Refugee Year (1959-60), the Canadian Committee for World Refugee Year had considerable correspondence with the Department of National Revenue in an effort to obtain income tax deductibility. For many months, the Department refused to grant their request, but as more and more individuals and organizations became interested in the project, the demand became insistent.

2. Meanwhile, most churches, the U.W.C.A., the Y.M.C.A., the Canadian Red Cross, and other groups, were all making great efforts to raise money for World Refugee Year, and were all able to issue receipts for donations which were eligible for tax deduction, yet money being used for exactly the same purpose donated to the Canada Committee for World Refugee Year, was not deductible.

3. Finally, (possibly on the intervention of the Prime Minister) the request was granted.

4. Now, the Freedom from Hunger Campaign, which is also sponsored by the United Nations under the Food and Agriculture Organization, is in exactly the same position.

5. Many organizations which can issue tax deductible receipts are raising money for the campaign, but the Canadian Freedom from Hunger Committee itself was refused permission to issue such receipts.



SUBMISSION

OF

L. C. FOSTER

TO

THE ROYAL COMMISSION ON TAXATION

May 13th, 1963

1. In her letter of April 29, 1963, to Mr. G. L. Bennett, my sister, Miss U.F. Foster, outlined how a \$170 refrigerator was re-assessed as a capital item after being declared as an expense. The extra tax for 1961 was just under \$25.00.

The original refrigeration system (compressor in basement and unit in each of 3 apartments) was never capitalized and as it was not possible to replace one worn-out unit, the individual refrigerator was purchased.

We wish to draw the following points to your attention as this is a typical handling by the Income Tax Department.

2. When there is a re-assessment, any extra tax must be paid within 30 days, regardless of a possible reversal by the Department of the re-assessment.

This feature points up the basic attitude that the taxpayer is guilty and must prove innocence.

RECOMMENDATION: Payment of additional taxes due to re-assessment should be required only after appeal and/or objection has been settled.

3. The re-assessment was made by a Junior Assessor, Mr. F. Fryer, and the impression I received was that this course of action had to be stoutly maintained by all others in the Income Tax Department. Both Mr. Livingstone



(Mr. Fryer's superior) and Mr. Robertson in the Appeal Section volunteered that this was a small nuisance item, and had they been in Mr. Fryer's place, they probably would not have raised this issue.

RECOMMENDATION; There should be easy access to an intelligent and objective person, preferably independent of assessors. (Such as an "Ombudsman").

4. The Tax Department is Prosecutor, Judge and Jury and operates, in effect, on a "Police State" basis:-

a) Our file is marked "To be Screened". Mr. Robertson said we could be questioned on the same item year after year. He mentioned particularly that my sister could be questioned every year about her status as a tenant. (My sister pays a fair rent and the only difference between her and a stranger is that she pays rent in advance when we are short of operating funds). If a file is "to be screened" there is a natural challenge for an assessor to find extra items for assessment. Each year a different assessor has a go at it and we must defend our positions on items already discussed thoroughly.

The large expenses we have had have made this real estate an extremely discouraging investment, and this hounding by the Tax Department leaves little incentive to improve our properties. Better to sell the property rather than try to increase income and taxes.

b) When an Objection is filed on one re-assessed item, the whole file is screened for other items. Whether the Taxpayer is "guilty" or not on one item, the assessors dig for more if the original assessment is questioned. This incredible injustice is practiced very thoroughly



1 and consistently by the Tax Department. When our "Notice
2 of Objection" was being processed by the Appeal Section,
3 Mr. J. R. Robertson telephoned me and asked for all our
4 receipts for 1961. He assured me that there was no
5 possibility of the refrigerator being classed as an
6 expense. However, he had singled out another item and
7 wanted to review all items. After some discussion, Mr.
8 Robertson gave a "choice":-

9 1) Unconditionally withdraw our Objection and
10 our file would be closed.

11 1i) If we maintained our Objection and declined
12 to produce all our vouchers, our file would
13 go to the Deputy Minister with the recommen-
14 dation that we be re-assessed on other items.

15 Mr. Robertson mentioned that expenses (\$228.02) and
16 depreciation (\$290.31) for the house in the country should
17 not be allowed.....as the house was not rented. As my
18 sister pointed out in her letter of April 29th, we have
19 not had the funds to make this house rentable on a year
20 round basis, and have not found summer tenants for several
21 years. Mr. Robertson seemed certain that even with our
22 withdrawal of objection (and closing of 1961 file) that
23 expenses and depreciation for this property would not be
24 allowed for 1962. It would seem that by questioning the
25 decision of a Junior Assessor (Mr. Fryer) we have changed
26 our status from "to be screened" to "to be thoroughly
27 screened for every probable item".

28 RECOMMENDATION: It should be made as difficult as possible
29 for assessors to improve their chances of advancement at
30 the taxpayer's expense. Assessors should look for ways



1 to help the small business man to increase his income --
2 and hence his taxes.

3 Surely some elemental justice can be introduced
4 so that only the item under objection is considered.

5 5. It appears that, not only are there no clear-cut
6 rules for making decisions, but decisions are continually
7 being changed. Mr. Robertson told me that replacement of
8 a tar and pebble roof on an old building is now considered
9 a capital item. Refrigerators (1 or 100) and stoves
10 (regardless of circumstances) are ruled capital items.

11 Decisions in these shaded areas again appear to be made on
12 the wrong basis. A new tar and pebble roof only makes an
13 apartment rentable, and we found that a new refrigerator
14 was required before we could rent the apartment.

15 By replacing a worn-out unit with a new refriger-
16 ator we are merely trying to maintain the value of the
17 property, and the same would apply to stoves, new roofing
18 etc., which are also replacement items.

19 RECOMMENDATION: Replacement items should not be classified
20 as capital items.

21 6. It would appear that much time and effort (cost
22 to the taxpayer) is being spent screening say 10 honest
23 taxpayers lest one might claim illegitimate expenses and
24 avoid some tax. Mr. Robertson asked me if I would like a
25 neighbour to illegally claim expenses for a Florida
26 holiday, and get away with it. It is peculiar justice to
27 make ten suffer lest one escape.

28 RECOMMENDATION: The costs of collection and the ill-will
29 caused by the Tax Department should be assessed and balan-
30 ced against extra taxes collected.



7. The cost of collecting the extra taxes from my sister and me was greater than the tax collected (\$25).

Following are times I spent on the telephone:-

with Mr. Fryer - more than $1\frac{1}{2}$ hours

Mr. Livingstone - $3/4$ hour

Mr. Robertson - $1\frac{1}{2}$ hours

Total - more than $3-3/4$ hours.

Aside from other time spent on this re-assessment, it is obvious that the cost of collection was much greater than \$25 (which we will get back over a period of years). Mr. Robertson of the Appeal Section told me that they process hundreds of objections to re-assessments on refrigerators and stoves.

RECOMMENDATION A careful review (with aid of computer) should be made on the economics of collecting small re-assessments with proper allocation of costs and overhead of each assessor. The reviewers should also look for the application of Parkinson's Law to find how many extra people are being kept busy.

8. Small business is not encouraged by the policy of the Tax Department to "re-assess and let the Taxpayer appeal". It should be recognized that:-

i) There can be more than one legitimate interpretation of expenses v capital.

ii) In some cases some leniency in interpretation could nourish a business (with consequent future taxes) whereas the strict interpretation could finish the business.

iii) The small business usually has few resources of money or time to contest re-assessments.



1v) Expense items of a business are subject to tax either as manufactured articles or as labour.

9, The assessors appear to trade on the assumption that a small increase in tax will not be contested. Mr. Fryer assured me that my \$10 extra tax was a very small amount and nothing to worry about.

In his re-assessment, Mr. Fryer forgot to allow the higher percentage for charitable donations and when I pointed this out, he offered most insistently to send me the dollar out of his own pocket.

RECOMMENDATION: The taxpayer's interests should be completely safeguarded. Costs of appeals should be borne by the Tax Department and the tendency of the Department to protect the decisions of the its employees against the interests of the taxpayer should be removed.

Leonard C. Foster	Professional Engineer -
461 Valermo Drive,	Province of Ontario
Toronto 14	Employed by - Dearborn
	Chemical Co. Ltd.

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

OTTAWA

ONT.

VOLUME No.:

DATE:

27A May 27/ 1963

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BRIEF TO THE
ROYAL COMMISSION ON TAXATION
ON
THE ESTATES TAX ACT
submitted by

THE PROFESSIONAL INSTITUTE OF THE
PUBLIC SERVICE OF CANADA

March 1963

The Professional Institute of the Public Service of Canada has recently studied the provisions of the Estates Tax Act and is shocked at the minimal protection provided by the statute for the widow and children of the taxpayer of moderate means.

The principles underlying all death duties are clearly twofold in nature: first, the provision of Government revenue, and secondly, the prevention of the accumulation of excessive wealth in the hands of the few to the possible detriment to the economic welfare of this country.

Since the statute provides for the taxation of annuities on a commuted basis, and fails to give statutory recognition to the inherent right of widows to a vested interest in the family home and furniture, widows and children of modest means are being discriminated against.

While it is true that everyone is presumed to know the law, a scrutiny of taxation cases over the past few years would indicate that the law with respect to the provincial succession duties and the federal Estates Tax Act, is at best known to a limited number of specialists in the fields of taxation law and accountancy. As a consequence,



1 it is imperative that the statute make clear and adequate
2 provision for the widows and children of wage earners and
3 salaried employees, whose main assets may well consist of a
4 mortgaged home, a limited amount of life insurance, and an
5 equity in a pension or superannuation plan.

6 Since the law with respect to gifts is extremely
7 complicated, the Institute makes the following recommenda-
8 tions for study by the Government with respect to widows:

- 9 (1) that consideration be given to an amendment
10 to the Act, to provide that unless otherwise
11 disposed of by the will of the deceased, the
12 widow shall be deemed, in all circumstances,
13 to have contributed to the family home or resi-
14 dence to the extent of one-half the fair market
15 value, or \$10,000.00 whichever is the greater;
16 (2) that unless otherwise disposed of by the
17 will of the deceased, that, in all circumstances,
18 all normal household appliances, furniture and
19 furnishings shall be deemed to be the property
20 of the widow.

21 The Institute notes that the Ontario Succession
22 Duty Act makes provision for the education of minor chil-
23 dren while the Estates Tax Act does not.

24 Section 5(f) of the Ontario Succession Duty Act
25 provides an exemption as follows:-

26 "Any disposition for necessities or education
27 to or for any member of the family of the
28 deceased where it is shown to the satisfaction
29 of the Treasurer that such member was depen-
30 dent in whole or in part on the deceased for



1 such necessities or education."

2 The Institute strongly recommends that the
3 Government give careful consideration to an amendment to
4 provide a similar exemption in the Estates Tax Act.

5 The Institute further notes that Section 5(h)
6 of the Ontario Succession Duty Act provides an exemption
7 to the following and the property and dispositions
8 concerned shall not be included in the aggregate value nor
9 included for the purpose of determining the rate:

10 "Any non-commutable annuity, income or periodic
11 payment effected in any manner other than by
12 will or testamentary instrument and paid for
13 by the deceased during his life and paid to
14 or enjoyed by his wife or dependent father or
15 mother or any dependent brother, sister or
16 child of the deceased after the death of the
17 deceased, to the extent of \$1200.00 per annum
18 with respect to any one person and to the extent
19 of \$2400.00 in the aggregate."

20 The Institute recommends that the Government give
21 careful consideration to an amendment to establish a compli-
22 mentary provision in the Estates Act.

23 The Institute realizes that the implementation of
24 its recommendations would result in a loss of Government
25 revenue, however, we suggest that a suitable adjustment on
26 large estates could offset such a loss and would be more in
27 line with present-day economic conditions, and the substan-
28 tial burdens that face the family in our modern society.

29 While it is indeed true that nothing is more
30 certain than death and taxes, surely a good country to live



1 in should be a good country to die in for taxpayers of
2 moderate means.

3 The Institute solicits careful study of its
4 recommendations to the end that suitable amendments to the
5 present Estates Tax Act will provide more certainty to the
6 law and more equitable provisions for the widows and chil-
7 dren of our citizens who, in many instances, are unaware
8 that their estates will contain future interests that are
9 taxable.

10 March, 1963.

L.W.C.S. Barnes,
President.

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SUBMISSION BY:

Mrs. Denise C. Brown,
335 Donald Street,
Ottawa, Canada.

RE: PERSONAL EXEMPTION - INCOME TAX

SUMMARY: THAT NATURAL MOTHERS, IRRESPECTIVE OF MARITAL STATUS, BE GRANTED A BASIC AND PERMANENT EXEMPTION FOR INCOME TAX PURPOSES OF \$10,000. ANNUALLY AND THAT SUCH EXEMPTION BE MADE RETROACTIVE TO JANUARY 1, 1957.

UNREASONABLE BURDEN OF TAXATION:

- 1) The imposition of income tax on self-supporting women with a dependent child or children, in the low income bracket is a violation of the basic principle that "men shall work by the sweat of their brow and women shall bear children in pain".
- 2) An only child increases the cost of living for a self-supporting woman by at least 50%.
- 3) The cost of maintaining a fatherless home far exceeds the cost of maintaining a conventional home.
- 4) The cost of maintaining a motherless home far exceeds the cost of maintaining a conventional home.
- 5) For practical purposes, a self-supporting woman with a dependent child or children, is supporting a motherless and fatherless home. In order to maintain the same standard of living as that maintained in a conventional home in the same income bracket, she must retain the services of a domestic servant and also secure hired and/or



- 1 professional help to perform the duties of a
2 male person in the home.
- 3 6) Recognition of the fact that motherhood has
4 suspended, reduced, curtailed, etc. the
5 income of a self-supporting woman.
- 6 7) Recognition of the fact that there is no
7 effective legislation in Ontario to place the
8 responsibility for the support of the family
9 on the married man. The skyrocketing costs of
10 social services to the taxpayer support this
11 fact. The proceedings in the family courts
12 which are conducted in SECRECY further support
13 this.
- 14 8) With few exceptions, a self-supporting woman
15 with a dependent child or children cannot
16 look forward to attaining or surpassing an
17 income of \$10,000. because of lost promotional
18 opportunities, etc.

19 TO COMPENSATE THE GOVERNMENT for any loss of revenue,
20 the following possible sources are suggested.

- 21
- 22 1) Abolishing the "married" exemption as such.
23 The exemption implies that there is a legal
24 obligation to marry or, if one does, there
25 is a legal obligation to support a wife and
26 children. Both are equally false in Ontario
27 at least, and the Federal Government should
28 discontinue playing cupid.
- 29 2) Amending the Income Tax Act to delete "married"
30 exemption for legalized adultery. e.g. A man



may "marry" on December 31st of a given year and "separate" on January 1st of the following year and qualify for "married" exemption for two years. Alternatively, the Income Tax could be amended to provide that women may also benefit from this type of conniving.

- 3) Recognizing the exemption I have recommended as the PRIME exemption and any other personal exemption, if any, for income tax purposes, should be on a graduating scale therefrom.

BENEFIT TO THE COMMUNITY

- 1) Relieving self-supporting women with dependent children of the burden of taxation would, in the long run, reduce the demand for and the necessity to expand and/or introduce additional state supported social services.
- 2) Relieving self-supporting women with a dependent child or children of the burden of taxation would give the child or children an equal opportunity of enjoying the same standard of living as that maintained in a conventional home, in an equivalent income bracket.
- 3) The striking difference between a broken home and a conventional home is the financial status. The Federal Government has a moral obligation to reduce the potential and the incidence of juvenile delinquency, by relieving self-supporting women, in the low income bracket, with a dependent child or children, of the



burden of taxation.

SUPPORT OF MY SUBMISSION.

- 1) I would be pleased to appear before the Commission if requested to do so.
- 2) The views expressed in my submission are based on my personal appearance in the Family Court and in the Supreme Court of Ontario.
- 3) The observations made are derived from long range effects of court decisions made on the basis of weak provincial legislation.

CONCLUSION

THAT NATURAL MOTHERS, IRRESPECTIVE OF MARITAL STATUS, BE GRANTED A BASIC AND PERMANENT EXEMPTION FOR INCOME TAX PURPOSES OF \$10,000.00 ANNUALLY AND THAT SUCH EXEMPTION BE MADE RETROACTIVE TO JANUARY 1, 1957.

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

OTTAWA

ONT.

VOLUME No.:

DATE:

28A

May 28/ 1963

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4 SUBMISSION

5 of the
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7 CANADIAN COMMITTEE ON

8 THE STATUS OF WOMEN
9

10 to the
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12 ROYAL COMMISSION ON TAXATION
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16 January 28, 1963
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1 Introduction

2 1. The Canadian Committee on the Status of Women
3 was established in 1953 under the Chairmanship of the
4 late Mrs. G. D. Finlayson of Ottawa. Our attention was
5 first concentrated on arousing in husbands and wives an
6 awareness of the disabilities which widows suffered
7 under the old Dominion Succession Duty Act. To accomplish
8 this we compiled and widely distributed basic information,
9 in lay language, in the belief that an informed public
10 opinion will compel governments to amend existing out-
11 moded legislation. The overwhelming response and the
12 commendation of our educational material from individual
13 women across Canada and from national organizations,
14 both women's and men's, prodded us into taking a further
15 step: we made a number of written and oral submissions
16 to the Federal Government throughout the progress of
17 the Estate Tax Act from Bill 248 through the replacing
18 Bill C-37, and finally made a submission to the Senate
19 Committee on Banking and Commerce in 1958.

20 2. Our main point of pride is that our educational
21 drive reached "the man on the street". In addition, we
22 stimulated thoughtful study and widespread action all
23 across Canada: interest was particularly keen in the
24 Prairie Provinces. However, credit for improvements
25 in estate tax legislation is due to the concerted efforts
26 of many organizations.

27 Scope of submission

28 3. We would relate our submission specifically
29 to Sections (a) (b) and (f) outlined in Order-in-Council
30 P.C. 1962-1334. Our arguments will deal with estate



1 tax legislation and with personal income tax insofar as
2 it has a bearing on estate taxation.

3 \$75,000 true exemption on all estates

4 4. We submit that a true exemption of \$75,000
5 should replace the current one of \$40,000 for all
6 estates (now \$60,000 where there is a widow). More than
7 ten years ago scores of women's and men's organizations
8 were asking for a true exemption of \$50,000 or more.
9 Since that time many organizations have concluded that
10 \$75,000 is a more realistic figure. Inflation has had
11 the effect of providing people with more and cheaper
12 dollars, thus moving them into estate tax brackets.
13 When you consider that an estate includes house and
14 furnishings, car, insurance, capitalized pension, as
15 well as everything else you own, your estate may be
16 found taxable even if you live very modestly. According-
17 ly, it would be only realistic to raise the true
18 exemption to \$75,000.

19 Recognition of marriage partnership for estate tax
20 purposes

21 5. We submit that one-half of a deceased marriage
22 partner's estate should, if it passes to the surviving
23 partner; be considered, for tax purposes, as earned by
24 the surviving partner, and not therefore, subject to
25 estate taxation.

26 6. A partnership in the ordinary sense of the
27 word involves an undertaking by persons in agreement to
28 share risks and profits. That a wife shares and shares
29 equally with her husband the risks and responsibilities
30 of marriage is self evident. However, a study of the





1 Estate Tax Act enforces no recognition of the fact that
2 the wife contributes increasingly in dollars to the
3 value of the estate; no recognition of the constant
4 and rapid increase in the number of working wives.
5 Today every fourth female over the age of 13 works for
6 pay. These women make up more than a quarter of the
7 labour force. According to the Dominion Bureau of
8 Statistics report for 1959, less than a quarter of them
9 are single. In fact, 66.5% are married; 10.3% are
10 widowed, divorced or separated. Obviously these women
11 working for pay are contributing a monetary value to
12 the husband's estate (which they consider their joint
13 estate) through down payment on the home, mortgage
14 payments, house furnishings, clothing, children's
15 education, often the husband's further education, and
16 even groceries. This is in addition to being a wife
17 and homemaker, itself a sufficient reason for legal
18 recognition of equality in the marriage.

19 7. Such equality is recognized in the case of
20 property owned in joint tenancy: provision has been
21 made whereby only that part representing the deceased's
22 "interest" will be included in the estate. Therefore,
23 where husband and wife owned the home jointly, only
24 one-half the value will be included in the estate of
25 either for taxation purposes. Logically, this principle
26 of equality should be extended to all property in a
27 spouse's estate and not be limited to real property held
28 in joint tenancy.

29 Discrimination against widowers

30 8. There is discrimination against a widower



1 in the case of a wife's estate, which is allowed only
2 an exemption of \$40,000. If a widower is to receive
3 the \$60,000 true exemption he must be physically or
4 mentally infirm AND have a dependent child. This denies
5 the principle of equality in the marriage partnership:
6 this principle should work both ways. It should not
7 be necessary for a widower to be either infirm or
8 supporting dependent children in order to have an
9 exemption equal to a widow's. This discrimination is
10 frustrating to wives who are working to support invalid
11 husbands, and unfair to the husbands themselves. The
12 basic exemption for all estates should be \$75,000.

13 Relief from double taxation

14 9. Regardless of theories of taxation, hardship
15 does result from the double impact of estate taxes and
16 income taxes on pension benefits. Pensions, annuities
17 and similar funds are capitalized on the basis of the
18 widow's life expectancy: they are then added to the
19 aggregate value of even a modest estate, and estate tax
20 is levied thereon. Also the pension benefit is
21 immediately liable to income tax. This unreasonable
22 squeeze forces many a widow back into her pre-marriage
23 job where she finds herself out of practice and near
24 the bottom of the pay scale.

25 10. We also submit that the imposition of estate
26 tax and income tax on the same sum of money can
27 exhaust the benefit: it may cease with a widow's re-
28 marriage; she may die sooner than the mortality tables
29 predict. Such provision for these contingencies as is
30 to be found in amendments to the Estate Tax Act and



1 Income Tax Act is unsatisfactory because it is cumber-
2 some, complex and expensive to administer.

3 Delay in collection of estate taxes

4 11. Many widows, who cannot benefit from further
5 changes in estate taxation, have expressed the opinion
6 that no tax should be imposed on an estate until both
7 marriage partners are dead. The following statement by
8 one widow expresses the sentiments of many married women:

9 "No country should impose succession duties
10 on a married couple's estate until both are through with
11 it. Ordinarily, the estate has been earned or cared
12 for by the efforts of both in the hope that the income
13 may care for them in their declining years. Many
14 husbands today receive a pension when they retire. At
15 the present time if the wife dies first there are not
16 succession dues on any portion due to the help of the
17 wife. But if the husband dies first immediately the
18 estate tax takes over and all the assets of the estate
19 are subject to succession dues. Also, immediately her
20 husband's pension is cut in two. The law requires that
21 not only the real estate and bonds etc., are valued but
22 the pension that she would receive until 72 are capita-
23 lized and added to the value of the estate and succession
24 dues levied on this amount. The capitalization of the
25 pension may also put the total value of the estate into
26 an upper bracket, which increases the rate levied on the
27 whole estate. Also at a time of grief and personal loss
28 she is confronted by a payment of taxes that there may
29 very easily not be ready money to pay. This may have
30 to be borrowed and interest paid on it or, if deferred



1 and paid in instalments to the government, again interest
2 is charged by them. Why, at the time of the widow's
3 greatest need in her lifetime should she lose her home
4 to pay taxes or be forced into an inferior way of living
5 in order that the country may collect succession duties
6 a few years earlier than would be the case if they were
7 not collected until the wife dies? As a matter of fact
8 this money does not belong to the state until such time
9 as she is through with it. No country is so poor as
10 to have to penalize their women in this way. If
11 succession dues must be collected, levy a higher rate
12 after both husband and wife have died and the estate
13 passes to others who have had no part in either creating
14 or caring for it."

15 Lack of liquid assets

16 12. We have heard it argued that a widow need
17 not lose her home, etc., if the husband, during his
18 lifetime, provides enough liquid assets to pay the
19 estate tax. There are several answers to this: and
20 the basic one is that it is nearly impossible for people
21 whose estate will total \$50,000 to \$75,000 to find any
22 liquid assets that can reasonably be set aside for this
23 purpose. If the husband dies early, liquid assets will
24 not be needed to pay estate tax because the estate will
25 not have reached a taxable aggregate; if he lives to
26 middle life, a growing business requires all available
27 capital to keep it growing into a taxable estate (or,
28 as the married couple think of it, one that will keep
29 them through their retirement years). For many years
30 the first call on liquid assets must be provision for



1 the education of the children. His pension, if he has
2 one, will provide a basic subsistence allowance for the
3 couple, and later for the widow; for they are quite
4 unaware that capitalization and double taxation on
5 income will eat up pension benefits for several years,
6 and may even leave the widow in debt for loans to pay
7 taxes. They must maintain payments on the home; they
8 count on it, the 20 year mortgage paid, to house them,
9 or the surviving spouse. The house is comfortable,
10 and the thought of debt-free ownership is deceptively
11 comforting.

12 13. As the widow pointed out in her statement,
13 the government has no right to frustrate a married
14 couple's expectations of reasonable and earned security
15 while either spouse lives.

16 14. Therefore, we submit that there should be
17 no collection of estate tax on a married couple's estates
18 until both spouses are dead.

19 Respectfully submitted,

20 (sgd.) Mary R. Gilleland

21 Mrs. W. H. Gilleland,

22 Chairman

23 Canadian Committee on

24 Status of Women

25 Box 606, R R 1, Ottawa, Ontario.
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B R I E F

of the

CANADIAN FEDERATION OF UNIVERSITY WOMEN

to the

ROYAL COMMISSION ON TAXATION

January 24, 1963



1 1. The Canadian Federation of University Women
2 makes these submissions on behalf of its Member Organi-
3 zations, totalling 107, with a membership across Canada
4 exceeding 10,000. The minimum requirement for member-
5 ship in our organization is graduation in a degree
6 course from an accredited university.

7 2. These submissions arise out of findings of
8 our national committees and, having been endorsed at
9 annual and triennial conferences, represent C.F.U.W.
10 policy.

11 3. The recommendations which the Canadian Feder-
12 ation of University Women are making to the Royal
13 Commission on Taxation concern:

- 14 (i) PERSONAL INCOME TAX
15 (ii) ESTATE TAXES
16 (iii) PROVINCIAL TAXES
17

18 PERSONAL INCOME TAX

19 Discrimination against Wives as Dependents

20 4. We would draw to your attention the fact that
21 tax regulations discriminate against wives in comparison
22 with all other dependents. The amount of money other
23 dependents have been allowed to earn has been raised
24 from time to time, but the wife's \$250 remains the same.
25 The child going to college is assisted by a generous
26 exemption, a parent receiving the old age pension is
27 granted a dependent status. All dependents, in fact,
28 except the wife, are allowed to earn up to \$950 a year
29 without affecting the taxpayer's exemption.

30 5. There are now so many and such varied



1 opportunities for a wife to obtain a part-time income
2 (which is what a \$950 exemption would cover) without
3 jeopardizing her family's interests or decreasing the
4 attention and care she can devote to her family that we
5 believe it is unfair to penalize her husband if, for the
6 advancement of the family welfare, she takes advantage
7 of these opportunities. It must be taken into account
8 that the money so earned is nearly always spent on
9 improvements to the family home, a better educational
10 opportunity for the children, or even on necessities such
11 as food.

12 6. To allow a wife to receive income up to \$950
13 a year without affecting her husband's income tax exemp-
14 tion for her, would be an acknowledgment of her status
15 as an equal citizen of the nation.

16 Discrimination against Employed Spouse

17 7. A great number of wives -- it is usually women
18 who play the subsidiary role in these situations -- work
19 side by side with their husbands; they may be wives of
20 farmers, doctors, lawyers, dentists, small shop keepers,
21 or even salesmen. Whatever work they do, they deserve
22 to be paid for it as any other person would be; and we
23 believe the husband should be allowed to deduct such
24 salary as a legitimate business expense. This view is
25 also held by the Canadian Institute of Chartered
26 Accountants and the Canadian Bar Association.

27 8. True, this inequality can be overcome by the
28 formation of a limited company (professional men excepted).
29 Both husband and wife can then receive salaries from
30 the company and pay tax on them separately. The expense



1 involved in forming a limited company often prevents the
2 small business man from taking advantage of this
3 provision.

4 9. Discrimination against both the small business man
5 and the professional man would be removed if the remun-
6 eration received by an employed spouse were deductible
7 and treated as separate income in the employee's hands
8 where the services are actually performed and the
9 compensation is not greater than would be paid to another
10 person for the same service.

11 Exemption for Housekeeper's Wages

12 10. Many single persons are the sole support of
13 dependents needing full time care, and at the same time
14 they must work full time outside the home. We believe
15 that the Income Tax Act should be amended to provide
16 that an individual who is supporting a child or other
17 dependent(s) who need(s) full time care should be allowed
18 exemption for wages paid to a housekeeper employed for
19 the purpose of looking after such dependent(s).

20 A taxpayer who claims this deduction should be unable
21 to claim the \$1000 deduction for married or equivalent
22 exemption.

23 11. At the present time householder exemption of
24 \$1000 is allowed a taxpayer when a housekeeper is
25 maintained where there is a dependent child and no spouse
26 in the home: there is an additional exemption for the
27 child of \$300 or \$550. As the householder exemption is,
28 however, for the child, the actual exemption for the
29 housekeeper is only \$300 or \$550, depending on the age
30 of the child.



1 12. We believe that the actual wages paid to a
2 housekeeper should be allowed as a personal exemption:

3 (i) when there is a child dependent on the
4 taxpayer and either the spouse is employed full time
5 elsewhere or there is no spouse in the household, or

6 (ii) When there is a dependent other than a
7 child in the household who by reason of infirmity re-
8 quires full time care, and either the taxpayer's spouse
9 is employed full time elsewhere or there is no spouse
10 in the household.

11 13. If the taxpayer claims these wages he could
12 also claim the usual exemption of \$300 or \$550 for the
13 dependent concerned, but could not claim married or
14 equivalent exemption.

15
16 ESTATE TAXES

17 14. We propose the following:

18 (a) a true exemption of \$50,000 deductible
19 from the value of the estate before
20 calculation of estate tax.

21 The Estate Tax Act provides a true exemption of \$40,000;
22 nevertheless we believe that \$50,000 would be a more
23 realistic figure in view of the present decreased value
24 of the dollar. In our Brief presented to the Prime
25 Minister of Canada in 1953, we drew attention to the
26 statement of the President of the Montreal Trust Company
27 in his report to the shareholders, February 16, 1953,
28 that had there been a true exemption of \$75,000 in effect
29 during the year ended March 31, 1951, there would have
30 been 36 percent fewer taxable estates but only six



1 percent less revenue. The decrease in revenue would be
2 largely offset by a corresponding decrease in the cost
3 of administration.

4 15. (b) recognition of equality in the
5 marriage partnership by allowing
6 that one-half of a deceased
7 marriage partner's estate if it
8 passes to the surviving partner
9 shall be considered for tax
10 purposes as earned by the surviving
11 partner, and not, therefore, subject
12 to estate taxation.

13 16. We submit that the present exemption of
14 \$60,000 where there is a surviving widow whether or not
15 she received any part of the estate, is NOT an acknow-
16 legment of equality in the marriage partnership. The
17 Federal Government has applied this taxation policy in
18 respect of widows in the Province of Quebec despite the
19 fact that, except where the community is dissolved by a
20 Court, the wife exercises no legal claim or control
21 over this property during her husband's lifetime. We
22 believe an advantage enjoyed by one province should be
23 extended to all.

24 17. We submit further that the present exemption
25 of only \$40,000 in the case of a wife's estate is again
26 a denial of the principle of equality in the marriage
27 partnership, a principle which surely must work both
28 ways. This discrimination against husbands is
29 particularly severe in the case of an invalid husband
30 who survives his wife; he must not only be physically



1 or mentally infirm himself, as if this were not handicap
2 enough, but he must also have a dependent child. Surely
3 an infirm widower should receive as much exemption as
4 a healthy widow whether or not he is supporting dependent
5 children. We submit that this is an unrealistic concept
6 of the financial burden imposed by prolonged illness
7 in a home, regardless of the sex of the invalid. It is
8 also discouraging to wives who are working to support
9 invalid husbands.

10 18. (c) exemption of pension benefits from
11 estate taxation

12 Taxation of the capitalized value of annuities, super-
13 annuation and pension benefits frequently imposes great
14 hardship. Where a person has only an annual income out
15 of which to pay estate tax, this may impose a heavy
16 strain on the slender resources a beneficiary may have,
17 even though payment may be made in six annual instalments.

18 19. We maintain that future income should not be
19 capitalized; where no capital is received no estate
20 tax should be levied.

21 20. Furthermore, pensions and annuities are
22 capitalized on the survivor's life expectancy. If he
23 dies before living out his life expectancy, he will pay
24 estate tax on money which he will never receive.

25
26 PROVINCIAL TAXES

27 31. We are a little puzzled as to how to approach
28 the subject of provincial taxes in a submission to this
29 Commission. However, with regard to the Ontario
30 Succession Duty Act, we have made several submissions



1 to the Government of Ontario regarding the inequities
2 in this legislation: it provides for no true exemption;
3 there is no recognition of the marriage partnership;
4 no provision for Quick Successions; and it clings to
5 an outmoded classification of beneficiaries. It is
6 incredibly unfair to the residents of the Province of
7 Ontario as compared with the residents of other provinces,
8 including those in Quebec.

9 Respectfully submitted
10 on behalf of:
11 THE CANADIAN FEDERATION
12 OF UNIVERSITY WOMEN
13
14

15 Margaret E. MacLellan,
16 President.
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1 REPRESENTATION SUBMITTED BY:

2 G. F. MacLAREN, Q.C.

3 DEATH TAXATION AND THE SMALLER PRIVATE
4 BUSINESS IN CANADA
5

6 The position of privately owned businesses in
7 Canada has been and is seriously endangered, and a great
8 many such businesses have been and are being sold to
9 foreign interests or large amalgamations. Unlike the
10 independent Canadian owners of a family business built
11 up in Canada, foreign-controlled corporate owners of
12 Canadian companies never die. Therefore, on each take-
13 over of a Canadian business by a foreign corporate
14 ownership, the future and recurring potential of Estate
15 Tax and Succession Duty is removed forever. Yet we now
16 find the Federal Government and Ontario and Quebec almost
17 forcing this takeover by foreign corporations or large
18 Canadian amalgamations by the vicious and almost immediate
19 estate tax and succession duty imposed on the death of
20 a resident Canadian who has built up a successful
21 Canadian-owned business.

22 The Canadians who have built up a prosperous
23 and well-run business in Canada are proud of it, plough
24 back a large proportion of the earnings left after taxes,
25 keep the plant and equipment up to date and treat their
26 employees well. It is noted that the Report made in 1945
27 by the Royal Commission on the Taxation of Annuities and
28 Family Corporations stated at page 51: "We are strongly
29 impressed by the evidence with the value of these Private
30 Companies in the Canadian economy."



1 Death Duties

2 When the main shareholders of a company, who
3 have built it up, grow old, the business is often sold
4 either to foreign capital or to a large Canadian
5 amalgamation; and one of the causes of this trend is the
6 pressure of looming death duties.

7 Most such businesses regret the need for this
8 and would prefer to carry on as before as well as to
9 protect the jobs of their faithful key employees; but
10 often the necessity for finding the sum due as death
11 duties within six months of the death of a large share-
12 holder forces a sale.

13 If the founder or builder of this successful
14 industry dies unexpectedly before he has sold his business,
15 government steps in and under its legislation, values
16 everything the deceased owned under the valuation
17 provisions of the legislation, with payment to be made
18 within six months, after which a penalty is imposed for
19 late payment. What can the executors do for cash to pay
20 the heavy duty on this one asset the estate owns (namely,
21 the equity in the business)? Its valuation is made as
22 of the date of death, on the last stock market quotation
23 or on the company's present worth, based on past earnings,
24 which will usually be considerably above any quick sale
25 value. Often the estate has to sell. It is very
26 difficult, if not impossible, for the estate to obtain
27 enough money to pay the tax without paying very high rates
28 or giving up control of the business.

29 Granted the wife and family may be able to live
30 fairly comfortably on what is left, nevertheless the team



1 is broken, the spirit is gone and the business is owned
2 by outside interests. Further, the spirit to expand or
3 further build something new by Canadians is, to say the
4 least, not encouraged.

5 It therefore seems desirable that the federal
6 and the provincial authorities should by some method
7 relieve the sudden, stupefying impact of estate taxes and
8 succession duty on the estate of the principal owners of
9 the equities in these small Canadian independent businesses.
10 If they do not give some relief, such businesses or
11 companies as described will continue to be sold to
12 foreigners or large corporations. If the government
13 advisers do not realize that this is inevitable, they
14 are not in touch with what is going on in Canada. If we
15 keep on the way we are going, then it has been estimated
16 that the successful Canadian-owned economy will disappear
17 within 100 years or even less. Even Russia recognized
18 this fact in many ways, and could, through corporate
19 set-ups, be actually acquiring control of some of our
20 businesses in Canada.

21 It is of course realized that the government
22 requires taxes, but should not a government take a
23 longer view of the inevitable outcome of its taxation
24 methods? Our politicians compete with one another in
25 promising us gullible electors something for nothing,
26 before the government has collected enough money to pay
27 for same. The capable and dedicated civil servant must
28 draw up our laws or find a new way to raise the taxes to
29 pay for the promises of our politicians. With the greatest
30 respect for anyone who goes into politics and for our



1 usually capable civil servants, very few of these are the
2 type of persons who have actually built a successful
3 flourishing Canadian-owned industry. It is submitted
4 that, if they are honest, most politicians, civil servants
5 and perhaps a great number of the electors will admit to
6 being envious of the successful businessman; so success-
7 ful Canadian-owned businesses seem to have at least two
8 strikes against them before they go to bat. We must have
9 revenue to pay Canada's expenses, and estate tax and
10 succession duty seem to be a very fair method of obtaining
11 it. But let us impose these taxes in a fair way so that
12 Canadian owners of these industries are at least given
13 a chance to pay the tax and yet retain ownership in
14 Canada.

15 The answer to this riddle is not clear, but it
16 does seem obvious that the windfalls accruing to the
17 government when deaths take place would be larger in
18 the future and would occur more often if ownership of
19 businesses was retained in Canada instead of passing to
20 foreign companies or large amalgamations -- which do not
21 die or pay death taxes.

22 It took a lifetime to build the smaller
23 Canadian-owned industry, so on the death of a shareholder
24 or owner, why should the government not allow the tax
25 to be paid on, say, at least a six year basis? The
26 following proposal gives a breathing space and seems fair.
27 At least six years should be given an estate in which to
28 pay the duties without penalty but with interest at, say,
29 4% per annum after the first year, the government keeping
30 control of sufficient assets in the meantime. However,



1 to encourage prepayment of duties before six years, a
2 discount could be given to the estate of say, 6% per
3 annum.

4 Such a scheme would give time for the remainder
5 of the family or group to organize some method of keeping
6 control in Canada and encourage the Canadian-owned control
7 to keep on with the expanding business. The executors
8 could gradually liquidate to the remainder of the family
9 or group, or other Canadians, some of the interest owned
10 by the deceased, over a reasonable time, so that the
11 executor and the Canadian group owners could pay the
12 taxes imposed at death and yet retain control in Canada.
13 It at least gives them a chance which they do not have
14 at present.

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16 -----
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ROYAL COMMISSION ON TAXATION

HEARINGS

HELD AT

OTTAWA

ONT.

VOLUME No.:

29A

DATE:

May 29/ 1963

OFFICIAL REPORTERS
ANGUS, STONEHOUSE & CO. LTD.
BOARD OF TRADE BLDG.
11 ADELAIDE ST. W.
TORONTO

364-5865 (TORONTO) 364-7383



Submission to the
ROYAL COMMISSION ON TAXATION
made on behalf of
DOMINION-SCOTTISH INVESTMENTS LIMITED
and
ECONOMIC INVESTMENT TRUST LIMITED

May 6, 1963

INTRODUCTION

This submission is made in reference to the taxation of Canadian investment companies under Section 69 of The Income Tax Act. This Section provides for a special rate of tax on investment companies provided they adhere to certain conditions set out therein. In addition we propose to discuss briefly the basic concept or philosophy governing the operations of the "closed-end" type of investment company.

We wish to draw to the attention of the Commissioners two paragraphs of Section 69 (2) of the Act. These paragraphs read as follows:

"(ba) Not less than 85% of its gross revenue for the year was from sources in Canada.

"(bb) Not more than 25% of its gross revenue for the year was from interest."

It is submitted that these paragraphs, which have been in their present form since December 1960, should be repealed and replaced by a paragraph to which further reference is made in paragraph 7 herein.

SUPPORTING ARGUMENTS

The main arguments in support of this submission



1 are set out below:

2 1. Both of the above provisions inhibit port-
3 folio managers in their range and choice of available
4 investments. This is especially true of paragraph (ba),
5 in view of the fact that there are certain classes of
6 industry where there are virtually no companies of invest-
7 ment stature available in Canada. In addition, mergers,
8 expropriations, takeovers, etc. are steadily decreasing
9 the scope of Canadian investment. Paragraph (bb) is
10 particularly restrictive in the case of closed-end invest-
11 ment companies such as Dominion-Scottish Investments
12 Limited and Economic Investment Trust Limited, both of
13 which are leveraged companies having both funded debt and
14 preferred shares outstanding. Interest and cumulative
15 dividends payable on the Companies' obligations make it
16 necessary for them to adopt a strongly defensive position
17 at times. This could mean an increase in interest income
18 in excess of 25% during periods when conditions warrant.

19 2. Tax considerations should not, generally
20 speaking, influence a portfolio manager in the making of
21 investment decisions. The fact that he is distinctly
22 influenced by the present legislation is, in our view, an
23 indication that the legislation is unnecessarily restric-
24 tive.

25 3. Except during periods of emergency, Canada
26 has not discouraged the export of capital and there are
27 many examples of Canadian companies which have invested
28 successfully abroad. Not only can such investments be a
29 major source of foreign exchange but in addition they often
30 serve as stimulants for Canadian exports. It may be argued



1 that the export of capital through the medium of investment
2 company portfolio purchases is not only a source of foreign
3 exchange but a liquid reserve of funds immediately available
4 in the event of an emergency.

5 4. Canada is a major exporting nation doing
6 business with many countries throughout the world. These
7 trading links can be strengthened by investment ties but
8 if investment abroad is inhibited by restrictive tax
9 measures, we feel that Canada will suffer in the long run.
10 Additionally, if Canadian portfolio managers have no incen-
11 tive to keep abreast of international investment trends,
12 it is submitted that investment companies and their share-
13 holders will be deprived of opportunities to improve
14 earnings and asset values.

15 5. Generally speaking, investment companies in
16 the United Kingdom and the United States have held a larger
17 proportion of their assets invested outside their own
18 countries than have Canadian investment companies. This
19 is not, of course, entirely as a result of the legislation
20 in connection with which this submission is being made but
21 there can be, in our view, little doubt that it has been a
22 significant factor.

23 6. We plan to make a presentation in connection
24 with the concept of the "closed-end" type of investment
25 company at the hearing when this brief is discussed.

26 SUBSIDIARY RECOMMENDATION

27 7. It is acknowledged that as a quid pro quo to
28 the reduced rate of tax exigible on investment companies
29 complying with the provisions of Section 69, some require-
30 ment as to sources of income is reasonable. Otherwise an



1 investment company could invest all its funds outside
2 Canada, yet its shareholders would still be eligible for
3 the 20% credit on dividends paid by the Company. We
4 accordingly recommend the reinstatement of a provision
5 which was added to Section 69 (2) in 1955 but amended in
6 1956. Prior to the 1956 amendment the provision read as
7 follows:

8 "(ba) Not less than 60% of its gross revenue
9 for the year was from dividends from taxable
10 corporations."

11 8. If this paragraph were to be re-enacted an
12 investment company would still have moderate leeway in
13 the range and type of its portfolio but it would be
14 required to keep a majority of its assets invested in
15 Canadian taxable corporations. In any event there is an
16 incentive for investment companies to invest in shares of
17 Canadian taxable corporations because dividends paid by
18 such corporations are exempt from tax in the hands of the
19 investment companies. It is submitted that this fact
20 would tend to maintain a reasonably high level of investment
21 in Canadian equities on the part of investment companies.

22 All of which is respectfully submitted.

23 May 6, 1963.
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TORONTO, ONTARIO

B R I E F

Dated May 9, 1963

SUBMISSION

ON BEHALF OF

MODERN BUILDING PRODUCTS COMPANY

TO

THE ROYAL COMMISSION ON TAXATION

LOUIS MOSTYN

Barrister and Solicitor

44 Victoria Street

Toronto 1, Ontario



1 Submission on behalf of MODERN BUILDING PRODUCTS COMPANY,
2 12 Sable Street, Toronto, Ontario, for deductions from
3 personal income tax of expenditures made for home improve-
4 ments.

5
6 1. Suggested Amendments to The Income Tax Act

7 This brief is presented for the purpose of
8 encouraging an amendment to The Income Tax Act in order
9 that (1) expenditures made to improve the exterior of
10 existing homes be deductible from the personal income tax
11 of the owner thereof; (2) deductions be allowed on loans
12 made for the purpose of home improvements; and (3)
13 deductions be allowed for all Municipal taxes directly
14 attributable to improvements to the home of the taxpayer.

15
16 2. Effect of the Suggested Amendments on Older Homes

17 The applicant, Modern Building Products Company,
18 submits that the aforementioned deductions from income
19 tax would encourage owners of existing homes (many badly
20 in need of repair and improvement) to take advantage of
21 such deductions and to improve and repair their existing
22 structures. Today in the face of rising costs of living
23 many home owners with limited incomes cannot afford to
24 make the necessary repairs and improvements to their
25 homes or if they do improve their homes they are faced
26 with increased local taxes based on the value of the
27 improvements to their homes.

28
29 3. Improvement of Rural and Urban Housing Generally

30 In many cities throughout Canada decay and



1 blight are rapidly spreading even though millions of
2 dollars are being spent for urban re-development and
3 public housing. This situation will exist so long as
4 urban taxes subsidize slums by under-taxation and
5 discourage improvements by over-taxation. The said
6 applicant submits that one method of preventing this de-
7 cay is by improving existing properties. Although much
8 can be done to encourage home improvements from the
9 Municipal level the applicant submits that the Federal
10 Government should take the load by recognizing the need
11 to assist and encourage the homeowner to improve his
12 home. The applicant further submits that in the case of
13 commercial landowners, particularly those in the slum
14 areas, that lightening the tax load on home improvements
15 would help to encourage the profit motive and, in effect,
16 would be giving partial tax exemption to money spent
17 modernizing and rebuilding the slums. With respect to
18 the rural, village and town areas, most homes are old,
19 wooden and in need of repair and by improving them their
20 life could be greatly lengthened.

21
22 4. Effect of Home Improvements on the Demand for Public
23 Funds for Public Assistance in New Housing

24 The applicant submits that if improvement of
25 existing homes is encouraged there will be less demand
26 for public assistance with new housing and mortgage loans
27 and therefore a reduction in public expenditures.

28
29 5. Effect on the Economy

30 The applicant submits that the encouragement



1 of the home improvement industry through a reduction in
2 taxes will provide a stimulus to the home improvement
3 industry resulting in increased employment, increased
4 productivity and increased taxation revenues.

5
6 6. United States Law

7 Deductions are allowed in the United States for
8 interest on personal loans and for state and local taxes,
9 and the applicant submits that this has encouraged spend-
10 ing for home improvements.

11
12 7. Conclusion

13 The applicant submits that if the homeowner
14 were permitted deductions from personal income tax of his
15 costs of home improvements as aforementioned the burden
16 on all levels of Government for re-development would be
17 greatly lightened and less public funds would be required
18 for N.H.A. Housing mortgages, as well as public housing,
19 more home-owners would be financially able to improve
20 their homes and as a whole the economy would be stimulated
21 to greater employment and production.

22 Respectfully submitted

23
24 "Louis Mostyn"

25 Solicitor for the Applicant
26
27
28
29
30



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TORONTO, ONTARIO

BRIEF

SUBMITTED TO THE

ROYAL COMMISSION ON TAXATION

BY

K. J. CHARLES

ASST. PROF. OF ECONOMICS

UNIVERSITY OF MANITOBA

WINNIPEG, CANADA

February 26, 1963



TAXATION AND ECONOMIC GROWTH

Introduction

1. This memorandum deals with issues concerning the role of taxation in promoting the orderly growth of the Canadian economy.

2. In recent public and academic discussion the relationship between taxation and economic growth has received a great deal of attention. This is in large measure due to the high rates of growth attained by Western Europe and Japan during the last decade, while Canada sluggishly moved forward. It was quickly assumed by many persons that the superior economic performance of the European countries and Japan was due to the ingenuity of their tax systems, while the Canadian tax system was roundly condemned for its burdensomeness and inefficiency. While subjecting this view to careful examination, this paper attempts to shed some light on the nature and extent of tax reforms necessary for rapid growth.

3. This study is presented in three parts. Section I of this memorandum provides a broad analysis of the growth process, a knowledge of which is indispensable to a proper understanding of the policy requirements of rapid growth; Section II compares the Canadian tax system with the tax systems of European countries, and attempts an assessment of the strength and the weaknesses of the Canadian system; some of the lines along which the Canadian tax system can be modified to make it more hospitable to economic growth are discussed in Section III.



I The Process of Growth

1
2 1. The capitalistic economy, if it should
3 maintain its capacity through time, to keep its labour
4 force fully employed, must be growing at an adequate
5 rate. This is partly because of the growth of the labour
6 force, but chiefly because of the tendency of investment
7 to create not only income but productive capacity as
8 well. Therefore dynamic equilibrium requires that
9 national income must be continuously growing at a
10 sufficient rate to utilize the growing productive capacity
11 of the nation. If national income fails to grow at this
12 rate, excess capacity will develop and act as a depressant
13 on further investment, until some autonomous investment,
14 like increased military expenditure, reverses the trend.
15 On the other hand, if national income is growing too
16 rapidly, existing capital will become scarce and thereby
17 encourage further investment, and set up cumulative
18 inflationary forces in motion until an acute shortage of
19 labour forces investment to decline. Thus the marginal
20 calculus of the private entrepreneur is a treacherous
21 guide in the dynamic world of capitalistic growth, for
22 it would alternately cause the economy to plunge into
23 depression or shoot off into inflation. To avoid these
24 twin dangers of excess capacity and capital scarcity,
25 investment must be stepped up in times of excess capacity
26 and curtailed in times of capital scarcity. Precisely
27 when our factories and machines lie unused or underused,
28 we should build more of them. But when our factories
29 and machines are working over-time, we should curtail
30 further investment. This is the paradox of growth!



Therefore, interests of stability and growth frequently require the economy to be guided in a direction opposite to the one in which it is being impelled by private enterprise.

2. A striking demonstration of this thesis is afforded by the performance of the Canadian economy during the last decade. As can be seen from Table I, between 1952 to 1956 the Canadian economy was growing rapidly, and it was during this period that investment --- domestic fixed capital formation was growing by leaps and bounds. For this period, the annual average

Table I

Growth of GNP and Domestic Fixed Capital Formation

Year	Real GNP in con- stant 1949 dollars	Annual Growth of GNP		Gross domestic fixed capital formation in constant 1949 dollars	Annual Growth of domestic fixed capital formation	
		absolute	%		Absolute	%
1952	20,027	+1480	+8.0	4,434	+467	+11.8
1953	20,794	+ 767	+3.8	4,695	+261	+ 5.9
1954	20,186	- 608	-2.9	4,462	-233	- 5
1955	21,920	+1734	+8.6	4,758	+296	+ 6.6
1956	23,811	+1891	+8.6	5,816	+1058	+22.2
1957	24,117	+ 306	+1.3	6,051	+235	+ 4
1958	24,397	+ 280	+1.2	5,690	-361	- 6
1959	25,157	+ 760	+3.1	5,587	-103	- 1.8
1960	25,617	+ 460	+1.8	5,327	-260	- 4.7
1961	26,097	+ 480	+1.9	5,415	+88	+ 1.7
1952-1956			5.2			8.3
1956-1961			1.86			-1.4



Source: (1) Private and Public Investment in Canada:
Depart. of Trade & Commerce
(2) National Accounts - Income & Expenditure,
1961. Dominion Bureau of Statistics.

rate of growth of GNP was 5.2 per cent while domestic
fixed capital formation was galloping at an annual rate
of 8.3 per cent. Between 1957 and 1961 the gross national
product was limping at an average annual rate of 1.86
per cent and we actually find a deceleration of investment
at an annual average rate of 1.4 per cent. In this
writer's view the autonomous force that reversed this
trend in 1962 was increased exports consequent on
devaluation of the Canadian dollar.

3. In the light of the above analysis it
follows that the nature of the capitalistic growth process
requires public guidance of, or control over, the volume
of aggregate investment. Therefore various methods of
encouraging investment in times of sluggish growth of
the economy and methods of restricting investment in times
of excess investment are required in the interests of
the orderly growth of the economy.

4. Liberal depreciation allowances, accelerated
depreciation and the like offered to firms in times of
general excess capacity, find their justification in the
characteristics of the growth process of capitalistic
economy. While this policy inference follows as an
inevitable corollary of the analysis of the growth pro-
cess presented above, unfortunately, this view has not
found wide acceptance even among eminent authorities.



1 5. For example, the President of the Montreal
2 and Canadian Stock Exchange, Mr. L. W. Kierans, has often
3 very forcefully argued against liberal depreciation
4 policies. According to him: (L. W. Kierans, "Investment,
5 Savings and Taxes", Canadian Tax Foundation, 1960
6 Conference Report, p. 12)

7 No measure could be more discriminatory and
8 inequitable. The basis of any investment
9 decision is that the cost can be recovered
10 in the market for the output of that invest-
11 ment. If the output will yield a surplus
12 above all costs including depreciation and
13 the risk of obsolescence, the investment
14 should be made. If not, the investment
15 results in a misallocation of capital.

16 ----- . At a time when there is
17 clear evidence of over-capacity in many
18 industries, it does not seem reasonable to
19 encourage further investment in plant
20 capacity at the expense of taxable profits.

21 6. Our analysis has shown that the economics
22 of capitalistic growth justifies encouragement of further
23 investment precisely at times when the individual margin-
24 al calculus of the private entrepreneur may impel him
25 to desist from further capital expenditure. If liberal
26 depreciation allowances encourage a number of entrepren-
27 eurs to undertake investment, they otherwise would not
28 have undertaken, each would find his previous fears
29 unjustified as a result of the increased demand for his
30 product arising out of the income generated by the rise



1 in aggregate investment. And, therefore, there would
2 have been no misallocation of capital.

3 7. Our analysis has so far concentrated on
4 capital accumulation as the sole generator of growth.
5 In point of fact, it is not even the most important
6 propellant of growth, though economists and administrators
7 have so far focussed attention almost exclusively on
8 capital formation. It is only quite recently that a
9 number of empirical studies in different countries,
10 notably the United States, have shown that technological
11 progress is the most important agent of economic growth.
12 The crucial role played by education in generating growth
13 is also receiving increasing recognition, and some
14 economists have even claimed that its capacity in this
15 respect surpasses that of capital investment. Whatever
16 their relative importance, there is no doubt that
17 technological progress, capital formation and education
18 are the three most powerful generators of growth.

19 8. Therefore, a nation interested in economic
20 growth should afford the maximum encouragement to these
21 triple engines of growth, giving the highest priority to
22 technological progress. While recent theoretical
23 discussions have assigned technological progress and
24 education high importance, our policies have not yet
25 been fully influenced by this new knowledge. Undoubtedly
26 its implications for public policy are far-reaching, for
27 the purpose of policy can no longer be to increase
28 investment as such, but to stimulate growth. This
29 vastly expands the range of policy parameters available
30 to Governments, for accelerated growth can come about



1 not only through increased investment, but also through
2 technological progress, improved education, better
3 training of the labour force, superior organization and
4 imaginative management.

5 9. In fact, it is now becoming increasingly
6 apparent that the importance of capital formation rests
7 not so much in the addition it makes to capital equipment
8 and the like, but in what it is often the chief 'carrier'
9 of technological progress. While there is as yet, only
10 a dim perception of all the forces that lie behind the
11 technological dynamism of a nation, there is wide agree-
12 ment that one important factor on which it depends is
13 the amount of research, both basic and applied, undertaken
14 by the public and private institutions of a society.

15 10. To stimulate growth, therefore, increased
16 expenditures on capital investment, research and education
17 would be necessary. The resources for this are available
18 from two sources: (1) by drawing upon the potential
19 output that is lost to the nation through unemployment
20 and excess plant capacity. (2) by shifting resources
21 from private consumption to private investment and public
22 spending for growth.

23 11. The nature of the growth process outlined
24 above thus provides a convenient theoretical framework
25 with reference to which policy for accelerating growth
26 may be discussed. The scope of this paper, however, is
27 restricted to the role that taxation can play in stimula-
28 ting growth. In the light of the above analysis, it
29 should be clear that taxation is only one of the instru-
30 ments in the hands of the State for accelerating the



1 growth of the economy. It is doubtful if taxation alone,
2 however cleverly designed, can do the trick. But as
3 part of a well-integrated national program, it has a
4 significant and even crucial role to play in accelerating
5 growth.

6
7 II An Examination of the Canadian Tax System:
8 and some International Comparisons.

9 12. Economic policy to accelerate growth,
10 as shown above, requires the transfer of purchasing power
11 from private consumption to private investment and to the
12 public sector.

13 13. In modern times, the State has been
14 called upon to play an increasingly important role for
15 the promotion of the orderly growth of the economy. The
16 provision of social overhead capital, education and
17 research, so essential for rapid growth, are activities
18 which by their very nature, are best performed by the
19 State. While research by private individuals and
20 industry has no doubt made many notable contributions,
21 research is becoming increasingly expensive, the
22 applicability of its results to industry never certain,
23 and its benefits are seldom confined to the industry
24 where it originates. The State therefore has to accept
25 responsibility not only for the provision of social
26 overhead capital and education but also for the promotion
27 of research, (In the United States in 1960, 58 per cent
28 of all research undertaken in industry was financed by
29 the Government. The total research expenditures in the
30 United States in 1959 constituted 2.58 per cent of its



1 GNP. In the same year, research accounted for 2.11 per
2 cent of GNP in Britain, but only 0.72 per cent of GNP
3 in Canada. The Federal Government of Canada spent \$154
4 million out of a total of about \$250 million spent on
5 research in Canada that year. Equality with the United
6 States would have required the Federal Government to
7 spend \$580 million on research, while equality with the
8 United Kingdom would have required it to spend \$490
9 million. Cf. Dr. E.W.R. Steacie, (President National
10 Research Council) "Research in Canadian Industry"
11 Industrial Canada, Proceedings of Annual Meeting, July 1962)
12 if the growth of the economy should be accelerated.

13 This would normally call for a high level of taxation.

14 14. A high level of taxation has been made
15 necessary not only because the State has to undertake
16 expenditure necessary for accelerating growth but also
17 because of increasing public needs --- in defence, public
18 health, social security etc. Therefore, it is neither
19 possible nor desirable for the State to cut down its
20 total expenditure. In fact, by increasing its expendi-
21 ture in measures aimed at accelerating growth, the State
22 can actually reduce the burden of taxation, for a high
23 rate of growth will automatically afford the State
24 increased revenue without the necessity of having to
25 resort to higher taxation.

26 15. Therefore, contrary to popular belief,
27 a high level of taxation is not necessarily inimical to
28 growth. Empirical evidence seems to offer a striking
29 confirmation of this view. As can be seen from Table II,
30 West Germany which has had the highest rate of growth



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11

Table II
Growth Rates, Inflation and Taxes^a
- Some International Comparisons -

	1960 Production Levels expressed as a % of 1953 Prodn.	Cost of Living Index in 1969 (1953=100)	Total Taxes as a % of G.N.P. 3 year average (1956-1958)	% of Tax Revenue from		Percentage of Direct Tax Revenue from	
				Direct ^b Taxes	Indirect ^c Taxes	Direct Tax Revenue from Corporations	Taxes on Persons
Japan	258	128	19.8	50.4	50.0	41.2	58.6
Italy	181	122	28.0	30.4	69.6	n.a.	n.e.
West Germany	180	118	34	57	43	57.9	42.1
France	172	142	31.9	48.2	51.8	15.8	84.2
Sweden	134	131	21.	60.0	34.0	14.6	85.4
England	121	129	28.6	53.4	46.6	26.4	73.6
Canada	127	113	23.6	46.7	53.3	38.6	61.4
U.S.	119	113	26.1	66.2	33.8	27.1	72.9

^a Taxes imposed by all levels of governments.

^b Includes personal and corporate income taxes, death duties, capital levies and social security contributions.

^c Includes all commodity taxes - such as customs duties, excise taxes and duties, stamp taxes and turnover taxes, also includes real estate and land taxes.

Source: 1. United Nations Yearbook of National Accounts Statistics 1960.

2. National Institute for Economic Review, U.N., March 1961

3. United Nations, Statistical Yearbook, 1961 and Monthly Statistical Bulletin.



1 among the countries of the West during the decade
2 (1950 - 1960), has also been bearing the heaviest tax
3 burden -- the measure of the burden of taxation being
4 the proportion of the country's income which is paid in
5 total taxation, direct and indirect, Federal, Provincial
6 and Local, including social security contributions. Taxes
7 in West Germany account for 34 per cent of the gross
8 national product, as against 23.6 per cent in Canada.

9 16. The popular view of Canada as a nation
10 groaning under a heavy burden of taxation is also shown
11 to be incorrect on examination. In fact, there is hardly
12 any developed western nation that has a lighter tax
13 burden than Canada. The developed nations of Western
14 Europe pay in taxes between 28 and 34 per cent of their
15 gross national products which is substantially higher
16 than the 23.6 per cent paid by Canada. Next to West
17 Germany, (34 per cent), in the list is Austria, which
18 bears a tax burden of 33 per cent. Finland, Norway and
19 France, each pays 32 per cent. The corresponding figures
20 for Sweden, Luxembourg, Britain, Italy and the United
21 States are 31 per cent, 30 per cent, 29 per cent, 28
22 per cent and 26 per cent respectively. Japan pays 20
23 per cent of its G.N.P. in taxation and is incidentally
24 the only major industrial nation which has a lighter tax
25 burden than Canada.

26 17. Having shown that the level of taxation
27 in Canada, at present, is considerably lower than that
28 of countries of Europe and the United States, we may now
29 turn to a brief consideration of the composition of
30 the Canadian Tax structure. In recent discussion the



1 "mix" of direct and indirect taxes adopted by a nation
2 has received considerable attention. (In this study
3 direct taxes are generally taken to include personal and
4 corporate income taxes, death, duties, capital levies,
5 social security contributions and similar imposts.
6 Indirect taxes refer to all forms of commodity taxation
7 such as customs duties, excises, sales tax, stamp duties
8 and turnover taxes. In Canada for constitutional purposes
9 retail sales taxes are regarded as direct taxes to
10 enable provincial governments to impose them. In this
11 paper, retail sales taxes are treated as indirect taxes.)
12 As a rule underdeveloped countries rely more heavily on
13 indirect taxes than on direct taxes. This is only to
14 be expected, since in these countries only a very small
15 proportion of the population earns taxable incomes, and
16 large corporations are all too few. Therefore, we find
17 India deriving 71 per cent of her total tax revenue from
18 indirect taxes, Costa Rica 74.4 per cent and Ghana 84
19 per cent.

20 18. On the other hand, there seems to be no
21 compelling reasons why developed nations should show a
22 greater dependence on direct taxes. Many of them do,
23 however. Most of the industrial nations of the Western
24 World derive more than 50 per cent of their tax revenues
25 from direct taxation. (See Table II) The United States,
26 Sweden and New Zealand, for example, depend for 66 per
27 cent of their total tax revenues on direct taxation.
28 On the other hand, there are developed countries which
29 rely more heavily on indirect taxes. Canada belongs to
30 this group, deriving more than 53 per cent of its total



1 tax revenue from indirect taxes. Australia (54.4%)
2 France (51.8%) and Finland (51.8%) resemble Canada in
3 depending for more than 50 per cent of their tax revenues
4 on indirect taxes.

5 19. What is the "mix" of direct and indirect
6 taxes most suitable for developed nations from the point
7 of view of rate of growth? In recent discussion the
8 view that a tax "mix", with a higher dependence on direct
9 taxes is most conducive to rapid growth has been gaining
10 ground. In Sweden, for example, though 66 per cent of
11 total tax revenue is accounted for by direct taxes,
12 there seems to be a definite tendency to alter the "mix"
13 in favour of more reliance on indirect taxes. Prof.
14 Erik Lindahl, the eminent Swedish economist, recently
15 outlined a proposal for a system of taxation based on
16 two components; on the one hand a fixed tax for the
17 purpose of levelling incomes and property, on a scale
18 corresponding to prevailing ideas of social justice and
19 consistent with the efficient performance of the economy,
20 and the other hand, a variable component, based on the
21 ability to pay principle that could be altered according
22 to the needs of the public finance. The recent tax
23 measures in Sweden, with their stronger emphases on
24 indirect taxation are widely regarded as an indirect
25 recognition of these views.

26 (In the case of the income tax, Lindahl's
27 proposal would involve a division into two taxes, a
28 fairly progressive surtax designed to equalize, and a
29 basic tax constructed solely in accordance with the
30 ability principle. The rate of surtax would in principle



1 be fixed, while the rate of the basic tax would vary
2 according to the revenue requirements of government. The
3 British income tax has this dual character, but Lindahl
4 thinks that "the principle is not followed consistently
5 since the basic tax (the standard rate) is assessed on
6 that income, whereas it ought to be calculated only on
7 that part of income remaining after surtax has been paid".
8 Erik Lindahl, "Tax Principles and Tax Policy" (1959)
9 International Economic Papers No. 10, pp 22-23

10 See also Muten, Leif "The Taxes of the Sixties"
11 Economist Revy 1-6, 1960 pp. 34-35)

12 20. In the light of the above, the present
13 "mix" with a heavier dependence on indirect taxation
14 that prevails in Canada today, would seem to be not an
15 unfavourable one from the point of growth. In fact, to
16 increase the effectiveness of taxation as an agent of
17 stability and growth, it may even be desirable for
18 Canada to slightly increase her dependence on indirect
19 taxes.

20 21. As an instrument of economic policy,
21 indirect taxes, especially the sales tax, can be highly
22 effective in controlling private consumption. In times
23 of full employment, thanks to its wide base, and
24 immediate impact on consumption, the sales-tax, especi-
25 ally in the short-run is better able to cut down
26 consumption and increase the savings necessary for growth.
27 Changes in income tax rates cannot produce such quick
28 results, for, apart from other reasons, income tax rates
29 cannot be varied more than once a year. In view of
30 the ever-present need in capitalistic societies to



1 exercise control over the volume of investment, a wide-
2 based sales tax with suitable exemption of essential
3 goods -- whose rates are altered from time to time in
4 step with the changes in the volume of investment being
5 brought about by fiscal policy, will be a powerful weapon
6 in the hands of Government in its fight against stagnation
7 and inflation.

8 22. Here Canada may be well advised to take
9 a leaf out of the French fiscal book. France is famous
10 for her many imaginative tax innovations. The most
11 productive element of her tax structure is the turnover
12 tax (taxe sur le chiffre d'affaire) which amounts for
13 nearly 40 per cent of the national government's tax
14 revenue. (In 1961-62, the federal sales tax in Canada
15 accounted for about 13 per cent of budgetary revenue).
16 It is levied as a "value-added" tax (taxe sur la valeur
17 ajoutee) on physical output extending down to the
18 wholesale level. (In view of the fact that it has often
19 been suggested in Canada that the sales tax base should
20 be extended to include the service industries, which it
21 is claimed, have been expanding at a greater rate than
22 manufacturing industries, it may be of interest to note
23 that France has been withdrawing from the field. The
24 service tax on transport of goods by rail, road and inland
25 waterways has been discontinued since 1956. The remain-
26 ing taxes on services rendered (Taxe sur les prestations
27 de services) by commercial establishments such as repair,
28 financial services, commission, etc. seem to have been
29 rescinded in 1960.)

30 23. Germany too relies heavily on her turnover



1 tax, which in 1960 accounted for 35.7% of the Federal
2 Budget revenue. But the German turnover tax is not a
3 value-added basis as the French tax, with the result that
4 it is said to have encouraged a high degree of vertical
5 integration in German industry.

6 24. The value-added type of turnover taxation
7 has the additional advantage that it will not cumulatively
8 build up the price; this combined with the exemption
9 of basic necessities -- bread, milk, newspapers, and
10 the supply of gas, water and electricity furnished by
11 public enterprises -- reduces the regressive character
12 of the French turnover tax. (Exemptions also generally
13 apply to agricultural products resold in their natural
14 state or after minor processing as well as to fishery
15 products. Certain commodities such as petroleum products,
16 meat, wine, cider, coffee and tea which are subject to
17 specific excise taxes are also exempted.)

18 The basic rate of the value-added tax on physical output
19 is 19.5 per cent. Certain processed foods and fuel are
20 taxed at lower rates of 10 and 12 per cent. On the other
21 hand, the value-added tax rate on a number of luxury items
22 such as furs, jewels, radios, television sets and certain
23 household appliances varies from 25 to 27.5 per cent.

24 25. This type of sales tax has roused wide
25 interest. In fact there are certain Swedish experts who
26 happily look forward to the day when a scientifically
27 graduated sales tax will provide the bulk of the revenue
28 of the State, supplemented by income tax levied only on
29 the highest income. While this is undoubtedly an
30 exaggerated and over-optimistic view, there is no doubt



1 that with a turnover tax of the French variety included
2 in its arsenal, the Government is better equipped for an
3 active fiscal policy. In times of full employment and
4 inflationary pressures, the Government would raise the
5 rates of turnover taxes, and lower them in times of
6 recession and unemployment.

7 26. In Canada, it may be useful to make a
8 careful study of the feasibility and desirability of
9 substituting turnover taxes of the French variety for
10 sales and excise taxes. If there are constitutional and
11 political difficulties in the way of doing this, the
12 Federal and Provincial Governments may at least agree on
13 a policy of varying the rates of Federal and Provincial
14 sales taxes according to the requirements of contra-
15 cyclical fiscal policy. Such a step will greatly enhance
16 the effectiveness of fiscal policy in promoting the
17 orderly growth of national output. In the light of this,
18 the absence of the retail sales tax in some of the
19 provinces of Canada will appear to be a hindrance rather
20 than an aid to growth.

21 27. We may now briefly consider the "mix" of
22 personal and corporation income taxes. As can be seen
23 from Table II, during 1956-58, Canada derived some 38.6
24 per cent of direct taxes from corporations, the U.S.
25 27.1 per cent, the United Kingdom 26.4 per cent, France
26 15.8 per cent and Sweden 14.6 per cent. In recent
27 discussion, this has been often quoted in support of the
28 view that Canadian corporations bear an inordinate share
29 of direct taxation compared with other industrial nations,
30 thereby weakening their competitive position. This



1 argument, however, does not stand up to more careful
2 examination. Germany and Japan, two of the fastest grow-
3 ing economies in the world, derived during the same
4 period 57.9 per cent and 41.2 per cent respectively of
5 their direct taxes from corporations, without apparent
6 loss to their competitive position in world commerce.
7 (It may be of some interest to note that during the period
8 under consideration Japan had a 50:50 split between
9 direct and indirect taxes, while the corresponding
10 figures for Germany were 57 and 43.. Cf. An Outline of
11 Japanese Tax - 1962 -- Tax Bureau, Ministry of Finance,
12 Japan.) In view of the wide diversity among nations in
13 the 'mix' of corporation and personal income taxes, we
14 are also, at this stage, unable to draw any generalizations
15 regarding the type of 'mix' most favourable to growth.

16 23. It is also worth noting that the growth
17 of revenue from corporation taxes has been quite sluggish
18 in Canada over the years, in marked contrast to the
19 rapid growth of revenue from the personal income tax.
20 As can be seen from Table III, in 1960 -- a year in which
21 real G.N.P. was 26.3 per cent higher than in 1951 --
22 the revenue from the corporation tax was less in real
23 terms than the revenue of 1951. Revenue from personal
24 income tax, on the other hand, was 65 per cent higher
25 in real terms than in 1951. At market prices while the
26 revenue from the corporation taxes in Canada rose from
27 \$1,287 million in 1953 to \$1,744 in 1959, the corporation
28 tax revenue in Japan during the same period rose from
29 231,500 million yen to 489,600 million yen. In Germany
30 the increase was from 4,750 million deutsche mark to



7,490 million deutsche mark.

Table III

Personal Income Tax Receipts		Corporate Income Tax Receipts		
Current Dollars	Constant 1949 \$	Current Dollars	Constant 1949 \$	
Million Dollars				
1951	890	780	1,416	1,841
1952	1,177	982	1,384	1,155
1953	1,287	1,069	1,220	1,014
1954	1,296	1,052	1,082	887
1955	1,297	1,048	1,272	1,028
1956	1,496	1,168	1,413	1,100
1957	1,693	1,279	1,337	1,011
1958	1,554	1,153	1,315	976
1959	1,744	1,261	1,580	1,142
1960	1,978	1,409	1,562	1,113

Note: Constant dollar data were obtained by deflating
with the implicit price index of gross national
expenditure.

Source: The National Finances 1962-63, Canadian Tax
Foundation

In France from 3,100 million (new) francs to 6,500 million
francs. (United Nations Yearbook of National Accounts
Statistics 1960) Both the United Kingdom and the United
States have also recorded stagnant corporation tax earn-
ings during this period. An examination of the corpora-
tion tax rates of high growth rate countries does not



1 show them to be materially different from that of Britain,
2 Canada and the United States, (American companies have
3 reported that the tax burden borne by their European
4 subsidiaries is not very different from that borne by the
5 U.S. parent companies. Cf. "How Taxes Compare", Special
6 Report, Business Week, Aug. 25, 1962) and therefore,
7 their higher tax receipts are almost entirely due to
8 their superior economic performance. The view that is
9 being so loudly proclaimed these days that reduction of
10 rates of corporation tax is the remedy supreme for the
11 sluggish rates of growth registered by the Canadian
12 economy, is unsupported by empirical evidence.

13 29. While the rates of corporation taxation
14 in countries of Western Europe are not significantly
15 different from those of Canada, their systems of deprecia-
16 tion allowances are generally more liberal and more
17 ingenious than those of Canada or the United States. The
18 high rates of growth attained by these countries during
19 the last decade is no doubt partly due to their ingenious
20 systems of incentive taxation and liberal depreciation
21 write-offs. Undoubtedly, there is much that Canada can
22 learn from the incentive tax systems of Europe, and
23 therefore a careful and critical study of these measures
24 can be very rewarding. However, an examination of Canada's
25 depreciation system and her recently introduced tax
26 incentives suggest that, on the whole, the Canadian
27 corporations might not be at such a sharp tax disadvantage
28 compared to their European counterparts, as it is often
29 claimed.

30 30. The diminishing balance method of



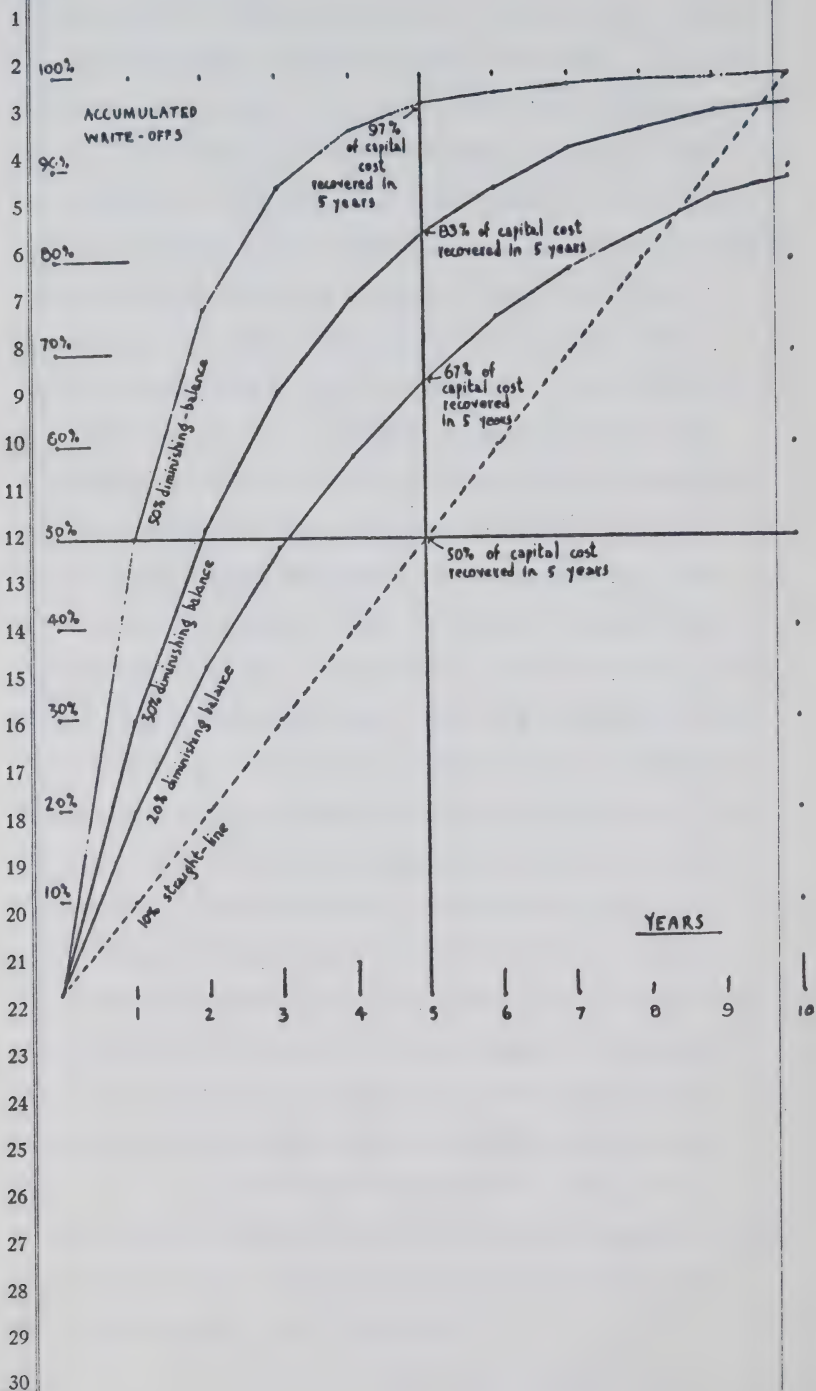
1 depreciation which was adopted in Canada in 1949, has a
2 clear advantage over the straight-line method. As shown
3 in the chart on the next page, assuming an average life
4 of 10 years for machinery and equipment, a 10 per cent
5 straight line depreciation, would recover 50 per cent of
6 the capital cost in 5 years. If a 20 per cent diminishing
7 balance write-off rate is used at the end of 5 years 67
8 per cent of capital cost would have been recovered.
9 A write-off rate of 30 per cent would recover 83 per cent
10 of the capital cost in 5 years. Therefore, the more
11 liberal the write-off rate, the greater is the incentive
12 for modernization and increased investment. Having
13 recovered a great proportion of the capital cost, the
14 incentive to replace it will be higher the more liberal
15 the write-off rate. Taxes will be low in the early years,
16 and high in the later years. But if a corporation keeps
17 up a high-level of capital expenditure, by timing them
18 carefully it may permanently enjoy tax reductions. The
19 great merit of liberal depreciation allowances is that
20 they encourage corporations to plough back into capital
21 formation a larger proportion of their profit. The
22 diminishing balance method, as shown above, by recovering
23 the bulk of the capital cost of machinery and equipment
24 in the early years, provides a powerful incentive to
25 replace old machinery with new and more efficient ones.

26 31. It may be instructive at this point to
27 review briefly some of the depreciation allowances granted
28 in Europe, and, in the light of this, to see how the
29 Canadian system could be improved.

30 32. There are three broad categories of



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1 depreciation allowances granted in Europe -- normal
2 depreciation, initial or accelerated depreciation and
3 investment depreciation.

4 A. Normal depreciation

5 33. In the countries of Europe, both straight
6 line and diminishing balance method of depreciation are
7 used. Germany, France, Belgium and the Netherlands,
8 while they permit both methods, seem to favour the
9 straight line method. Britain allows only the diminishing
10 balance method (at 1.25 times the straight line rate)
11 except for buildings and some other assets where the
12 straight line method may be used. Italy permits only the
13 straight line method, at 10 per cent for machinery,
14 though higher rates are available through negotiation.
15 Netherlands permits corporations to determine their own
16 rates of write-offs using either of the methods, as long
17 as the rates are based on historic cost and not on
18 replacement cost. Belgium, however, permits depreciation
19 rates based on the value rather than the historic cost
20 of the asset, either at the date it is acquired or at the
21 date it is brought into use. In Belgium also the rates
22 can be negotiated. In both France and Germany, rates
23 have to be fixed through negotiation. In France, where
24 the straight line write-off rate for machinery and
25 equipment is 15 per cent, the rates may be increased to
26 20 to 30 per cent for multiple operations. In Germany,
27 where the normal diminishing balance write-off is 20
28 per cent and the straight-line write-off is 10 per cent,
29 rates can be increased by 25 per cent for double shift,
30 and by 50 per cent for triple shift.



1 B. Accelerated Depreciation

2 34. All European countries, with the exception
3 of Belgium and Sweden, grant initial or accelerated
4 depreciation. Initial depreciation allowances, unlike
5 normal depreciation allowances, are granted only once --
6 usually in the year the depreciable assets is acquired.
7 In France in the year of acquisition of a plant or
8 equipment, having a useful life exceeding five years, the
9 normal annual allowance may be doubled. In Germany, coal,
10 iron-mining, steel and hydro-electric industries are
11 permitted an initial write-off of 50 per cent of the cost
12 of movable assets and 30 per cent of the cost of fixed
13 assets in the two taxation years following their acquisition.
14 In the Netherlands, initial allowances are available
15 for new or improved assets, up to 33 1/3 per cent
16 spread over two years. Britain offers initial allowances
17 on capital expenditures up to 45 per cent, according to
18 the nature of the expenditure.

19 C. Investment Depreciation

20 35. Investment allowances, in addition to
21 normal and accelerated depreciation allowances, are
22 granted by most European countries, with the exception
23 of Germany and France. Investment allowances may either
24 take the form of investment depreciation allowances or
25 investment reserve allowances. The chief difference
26 between them is that in the former deduction is calculated
27 on the basis of the cost of an asset, while in the
28 latter taxable income is the basis on which deduction
29 is computed.



1 36. Both the United Kingdom and the Netherlands
2 grant investment depreciation allowances. Netherlands,
3 for example, grants investment allowances of 16 per cent
4 over two years. This means that 16 per cent of the cost
5 of new machinery can be deducted from taxable income
6 without reducing the depreciable cost of the asset.
7 Therefore, under this system 116 per cent of the original
8 value of the asset will be eventually deducted from
9 taxable income, instead of the 100 per cent deducted under
10 normal and initial depreciation. In Britain, where
11 attractive initial allowances up to 45 per cent are
12 granted, the rates of initial depreciation will be reduced
13 if both initial depreciation and in depreciation allowan-
14 ces are claimed on a particular asset.

15 37. Turning now to the investment reserve
16 allowance, this is granted in Italy and Sweden. In Italy
17 10 per cent of the profits realized on newly established
18 enterprises are exempted from the ricchezza mobile income
19 tax. In Sweden a corporation is permitted to set aside
20 up to 40 per cent of its income before tax in a deductible
21 investment reserve which, subject to government approval,
22 can be later used for business investment, without being
23 recaptured into income.

24 38. This use of investment depreciation
25 allowance to permit a recovery of funds in excess of 100
26 per cent of the cost of business assets is a distinctive
27 feature of the incentive tax systems of Europe.

28 39. The conclusion that is suggested strongly
29 by a study of the tax systems of Europe is not that the
30 corporations get off lightly compared to those of Canada,



1 but that the many ingenious tax devices of Europe succeed
2 better in harnessing the corporations to the chariot of
3 economic growth.

4 40. Two further points may be noted. The
5 computation of income for taxation purposes in all
6 European countries under consideration, with the exception
7 of Sweden and Britain, is on a net worth basis rather
8 than on the basis of the excess of profits over expenditure
9 incurred in a taxable year, as is the practice in Canada.
10 Under the net worth concept, income stands for the amount
11 by which the company's net worth has increased during
12 a taxable period, plus any withdrawals and less any
13 amount brought in as additions to capital. No distinction
14 is made between earned income and capital gains.

15 (In the Netherlands for example the corporation tax is
16 levied on profits which are defined as "the amount of the
17 aggregate gains which, under whatever name and in whatever
18 form, are obtained from an enterprise". Cf. Netherlands,
19 Information guide. Price Waterhouse & Co. June 1961)
20 Since this is a broader concept than 'net income' the
21 income subjected to tax is likely to be greater in Europe
22 than in Canada under the same circumstances.

23 41. Secondly, in some European countries, the
24 treatment accorded to losses is far from liberal and in
25 most of them it is no more liberal than in Canada. The
26 general practice in most of the European countries under
27 consideration is to permit losses to be carried forward
28 for a period of five years. In the Netherlands it is six
29 years forward and one year back. In Canada it is one year
30 back and then five years forward. In this matter, the



1 United Kingdom is the sole exception among the countries,
2 under consideration, for their losses can be carried forward
3 indefinitely. Therefore, in their treatment of business
4 losses, the European countries, with the exception of the
5 United Kingdom, are not especially generous to the
6 corporations. Furthermore, European countries rely more
7 heavily than Canada on Turnover taxes or similar imposts
8 on consumption.

9 42. Turning now to the personal income tax,
10 on the highest income the marginal rate of taxation in
11 Canada is 84 per cent. The top rates in the United
12 Kingdom and the United States exceed 90 per cent. In
13 the other European countries the top rates are much
14 lower -- Sweden 65%, Italy 58%, Norway 55% and Germany
15 53%. The tax base in Europe, however, is larger than in
16 Canada or the U.S. In Sweden, for example, 54% of the
17 population pays income taxes; in Britain 36%, and in
18 Canada and the U.S. the portion is 26%, and who can say
19 this constitutes a violation of our conceptions of
20 equity and ability? Moreover, the fact that the Canadian
21 tax base is narrow indicates that most Europeans pay
22 taxes at levels where Canadians pay no income taxes.
23 Many of the exemptions and deductions granted in Canada
24 contribute to the quity of the tax system. The
25 possibility of introducing incentives designed to
26 increase the desire to work and save of Canadians should
27 be carefully studied. Studies conducted in the U.S.,
28 where the marginal rates of income tax are higher, seem
29 to indicate that the willingness to work has not been
30 impaired so far, as a result of high rates of income
taxation. (Cf. "Effects of Taxation: Investment by
Individuals", and A. T. H. Sanders" "Effects of Taxation
in Executives", and Break, "Effects of Taxation on Work



1 Incentives" in Federal Tax Policy for Economic Growth
2 and Stability Papers submitted by panelists appearing
3 before the Subcommittee on Tax Policy, Joint Committee on
4 the Economic Report NN, 1955 and G. F. Break's paper
5 "Income Taxes and Incentives to Work: An Empirical Study,
6 American Economic Review, Sept. 1957.) This paper does
7 not attempt an examination of the impact of the present
8 rates of personal income taxation in Canada on the ability
9 and willingness of Canadians to work and save. Instead
10 it assumes that the rates do not adversely affect economic
11 growth, and seeks measures other than reduction of rates,
12 in the form of incentives and exemptions that would make
13 the personal income tax a more powerful instrument in
14 the service of economic growth.

15 16 III RECOMMENDATIONS AND SUGGESTIONS

17 43. The thesis that emerges from this study
18 is that the role of taxation in promoting economic growth
19 is four-fold:

20 (a) To promote the stable growth of the economy,
21 the tax system should be used to encourage the flow of
22 investment in times of excess capacity in the economy,
23 and to restrain it in times of capital scarcity.

24 (b) To provide the necessary revenue for the
25 State to promote directly by its investment and expen-
26 diture, the activities that constitute the warp and woof
27 of economic growth --- technological progress, capital
28 investment, education and research.

29 (c) To build into the tax system various
30 incentives and exemptions, so as to enable it to afford



1 the maximum encouragement to the activities named above.

2 (d) To facilitate the shift of resources from
3 private consumption to private investment.

4 44. We may now indicate some of the lines along
5 which our tax system could be modified to improve the
6 effectiveness of its contribution to economic growth.

7 A. Corporation Tax

8 45. Both on a priori grounds and on the
9 strength of empirical evidence, there does not appear to
10 be any valid case for across-the-board reductions in the
11 rates of corporation taxes. It should also be pointed
12 out that 60 per cent of the dividends paid out by the
13 corporations in Canada go to residents outside the
14 country, and therefore, across-the-board reductions in
15 taxation by increasing the amount of dividend payments
16 will bring about a loss of revenue to the Government
17 without any corresponding benefit to the people of
18 Canada. Reduction in the rates of taxation also may lead
19 to cutting down of expenditure by corporations on such
20 necessary items as research, with a view to increasing
21 dividend payments.

22 46. On the other hand, the case for increasing
23 incentives and exemptions to encourage growth, has much
24 to commend itself. In this connection, the reforms
25 recently introduced by the Government for the promotion
26 of research, modernization of equipment and expansion of
27 sales are all steps in the right direction. These
28 experiments should be studied carefully, and on the basis
29 of the results, efforts should be made to incorporate
30 these with suitable modifications, into the corporation



1 tax system.

2 47. In view of the high importance of educa-
3 tion in promoting economic growth, consideration should
4 be given to the idea of permitting corporations to deduct
5 125 per cent of their expenditure incurred on imparting
6 training and skill to labour and management.

7 48. Following the European example, Canada
8 may make increasing use of depreciation allowances and
9 accelerated depreciation to promote investment. However,
10 as explained earlier, in the interest of long term
11 growth, short-term abnormal spurts of investment should
12 be avoided. For this reason, the depreciation policy
13 should be administered in a flexible manner, as a
14 contra-cyclical weapon. Actually, in this matter Canada
15 is a true pioneer. During the Korean War, Canada
16 introduced in April 1951, a plan of deferred depreciation
17 for a specified class of investments, and effectively

18 kept the boom in restraint. (Cf. Richard Goode,
19 "Special Tax Measures to Restrain Investment", Inter-
20 national Monetary Fund. Staff Papers, Feb. 1957
21 M.W. Sharp, "Deferred Depreciation Reviewed" Canadian
22 Tax Journal May - June, 1953.) After the inflationary
23 pressures had eased off toward the end of 1952, the defer-
24 ment regulation was withdrawn. Perhaps if the abnormal
25 spurts of investment during 1955-57 (See Table I) had been
26 prevented, the growth rate of GNP might not have lagged
27 so much during the subsequent period. An increasing invest-
28 ment of about 10 per cent cannot be supported for long by
29 an economy with a long-run growth rate capacity of about
30 4 to 5 per cent. Sweden imposed a tax on industrial
investment during the year 1952 - 1953 and 1955 - 1959.
Germany has recently been lightening her rates of deprec-
iation.

31 49. Considerations may also be given to the
32 introduction of a system of investment reserve allowance
33 following the example of Sweden. Indications are that
34 it is working well in Sweden, for up to the end of 1958,
35 about 1,200 Swedish corporations had allocated a total
36 of more than (1) billion Swedish crowns to investment
37 reserves. In view of increasing unemployment the
38 Government --- the Labour Market Board --- announced it



1 will entertain applications from corporations for
2 permission to use investment reserves. By the fall of
3 1959, 613 separate applications, authorizing 700 million
4 crowns to be charged to investment reserves, had been
5 granted. It is significant that private industrial
6 investment in Sweden rose in 1958 by as much as 11 per
7 cent, despite the recession, and at a time when investment
8 was declining or barely holding its own in other
9 European countries. (Martin Norr "Taxation of Corporate
10 Income in Sweden: Some special Features", National Tax
11 Journal, Dec. 1959. _____, "Taxation and Stability",
12 Harvard Business Review, Feb. 1960.) In fact, the kind
13 of private investment induced by this scheme is likely
14 to be more conducive to long-term economic growth than
15 recession spending by Government. It could well herald
16 a new era of active cooperation between Government and
17 industry in the cause of stability and growth. In fact,
18 once business is convinced of the determination of the
19 Government to maintain a high rate of growth of GNP it
20 may actually take advantage of the availability of labour
21 and raw materials in recessions, to step up its investment
22 activity.

23 50. Along with all these tax concessions to
24 corporations, it would also be necessary to prevent abuses
25 of liberal depreciation allowances and other concessions.
26 This may be done by (1) taxing profits on the sale of
27 depreciated assets as ordinary income to the extent of
28 the amount of capital consumption allowance previously
29 deducted for the asset (2) Regulations regarding
30 deductible expenses should be drawn up in a clear and



1 unambiguous manner, and accounts should be audited
2 carefully to prevent the acquisition by firms of "depre-
3 ciation objects" and to cut down expense accounts (3)
4 it might also be desirable to exercise control over
5 advertisement expenses, by not permitting expense beyond
6 a certain proportion of total cost as allowable business
7 expense in calculating income taxes. (W. H. Hansen,
8 Economic Issues of the 1960's.)

9 B. The Personal Income Tax

10 51. (1) Consideration might be given to
11 varying the rates of income tax in the lower income brackets
12 according to the requirements of contra-cyclical policy.
13 If objective criteria could be established for this ---
14 like degree of unemployment, rates of investment etc ---
15 the public could soon learn to accept such variations
16 as the normal feature of the management of the economy,
17 like variations of bank rate.

18 (2) The steep progressivity of personal income
19 tax in Canada makes it a very effective automatic
20 stabilizer (See Table III), reducing the progressivity
21 of the tax is almost sure to effect its effectiveness
22 in this regard.

23 (3) In view of the crucial role played by
24 human capital in economic growth, consideration might be
25 given to making bona-fide expenses incurred by the
26 citizen for improving his skills, knowledge and competence,
27 as a deductible expense in calculating income taxes.

28 (4) In view of the high importance of indivi-
29 dual research, at least the amount of expenses incurred
30 by scholars and scientists in the furtherance of their



1 research might be treated as a deductible expense for
2 income tax purposes.

3 C. Taxation of Capital Gains

4 52. Taxation of capital gains in one form or
5 another is a regular feature of tax systems of most
6 developed nations, and not a few underdeveloped ones.
7 Its continued exclusion from the Canadian tax systems
8 cannot be justified either on grounds of equity or
9 economic growth. It is undoubtedly an increasingly
10 important source of revenue in Canada today and has be-
11 come a species of income deliberately sought by many.
12 Kaldor recently remarked that if a visitor from Mars were
13 to judge by the heaviness of the tax borne, the relative
14 importance of various classes of people he would conclude
15 "that professional speculators performed the most
16 valuable services to the community, and high officials of
17 the Civil Service, or of the Judiciary performed the
18 least beneficial services." This statement is perhaps
19 more applicable to Canada than to almost any other
20 country of comparable development. In the countries of
21 Europe, in the United States and now in Britain, capital
22 gains are subject to varying rates of taxation. The
23 introduction of a capital gains tax is long over-due.
24 A detailed discussion of the subject is beyond the
25 scope of this paper. It may be pointed out, however,
26 that the tax is likely to have a favourable impact on
27 economic growth. Apart from bringing revenue to the
28 Government, it may be expected to divert some of the
29 ingenuity and talent that is currently locked in the
30 'zero-sum games' of stock-market speculation and real



1 estate trading, to activities calculated to increase the
2 industrial output of the nation.

3 53. In conclusion, one final suggestion may
4 be made. Fiscal psychology is a new and unexplored field;
5 but it may be very rewarding to make a careful study of
6 the mental attitudes of Canadians to taxation as a whole
7 and to specific taxes in particular. The German word,
8 'Steuer' means 'support' and the Scandinavian 'skat' the
9 common treasure destined for common purposes. In France,
10 England and North America tax is something felt as an
11 'imposition' upon the citizens (impot, imposto, impuesto).
12 The psychology of the tax payer in these countries seems
13 to offer a much higher resistance to taxes. In the
14 histories of these countries resistance to taxation played
15 a crucial role in the very development of democratic
16 and representative institutions, and this no doubt has
17 become part of the psychological make-up of their
18 citizens.

19 54. In Europe considerable work in this new
20 and exciting branch of public finance has already been
21 done. (Dr. G. Schmolders of Germany started research on
22 human behavior under taxation as early as 1932. In
23 France, Henry Laupenburger has already included fiscal
24 psychology in his standard work on public finance.
25 Cf: *Lis Traite d'Economie et de Legislation Financiere*,
26 Paris, 1954.) Moral suasion is now a powerful instrument
27 of monetary policy in most countries. If it shall become
28 a serviceable instrument in the hands of fiscal authorities,
29 a systematic study of the 'tax mentalities' of citizens,
30 should be undertaken on a continuing basis.

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

WHITEHORSE

YUKON, TERRITORY

VOLUME No.:

DATE:

30A-116-117-118-119-120-121-122-123-124-125-126-127-128-129-130-131-132-133-134-135-136-137-138-139-140-141-142-143-144-145-146-147-148-149-150-151-152-153-154-155-156-157-158-159-160-161-162-163-164-165-166-167-168-169-170-171-172-173-174-175-176-177-178-179-180-181-182-183-184-185-186-187-188-189-190-191-192-193-194-195-196-197-198-199-200-201-202-203-204-205-206-207-208-209-210-211-212-213-214-215-216-217-218-219-220-221-222-223-224-225-226-227-228-229-230-231-232-233-234-235-236-237-238-239-240-241-242-243-244-245-246-247-248-249-250-251-252-253-254-255-256-257-258-259-260-261-262-263-264-265-266-267-268-269-270-271-272-273-274-275-276-277-278-279-280-281-282-283-284-285-286-287-288-289-290-291-292-293-294-295-296-297-298-299-300-301-302-303-304-305-306-307-308-309-310-311-312-313-314-315-316-317-318-319-320-321-322-323-324-325-326-327-328-329-330-331-332-333-334-335-336-337-338-339-340-341-342-343-344-345-346-347-348-349-350-351-352-353-354-355-356-357-358-359-360-361-362-363-364-365-366-367-368-369-370-371-372-373-374-375-376-377-378-379-380-381-382-383-384-385-386-387-388-389-390-391-392-393-394-395-396-397-398-399-400-401-402-403-404-405-406-407-408-409-410-411-412-413-414-415-416-417-418-419-420-421-422-423-424-425-426-427-428-429-430-431-432-433-434-435-436-437-438-439-440-441-442-443-444-445-446-447-448-449-450-451-452-453-454-455-456-457-458-459-460-461-462-463-464-465-466-467-468-469-470-471-472-473-474-475-476-477-478-479-480-481-482-483-484-485-486-487-488-489-490-491-492-493-494-495-496-497-498-499-500-501-502-503-504-505-506-507-508-509-510-511-512-513-514-515-516-517-518-519-520-521-522-523-524-525-526-527-528-529-530-531-532-533-534-535-536-537-538-539-540-541-542-543-544-545-546-547-548-549-550-551-552-553-554-555-556-557-558-559-560-561-562-563-564-565-566-567-568-569-570-571-572-573-574-575-576-577-578-579-580-581-582-583-584-585-586-587-588-589-590-591-592-593-594-595-596-597-598-599-600-601-602-603-604-605-606-607-608-609-610-611-612-613-614-615-616-617-618-619-620-621-622-623-624-625-626-627-628-629-630-631-632-633-634-635-636-637-638-639-640-641-642-643-644-645-646-647-648-649-650-651-652-653-654-655-656-657-658-659-660-661-662-663-664-665-666-667-668-669-670-671-672-673-674-675-676-677-678-679-680-681-682-683-684-685-686-687-688-689-690-691-692-693-694-695-696-697-698-699-700-701-702-703-704-705-706-707-708-709-710-711-712-713-714-715-716-717-718-719-720-721-722-723-724-725-726-727-728-729-730-731-732-733-734-735-736-737-738-739-740-741-742-743-744-745-746-747-748-749-750-751-752-753-754-755-756-757-758-759-760-761-762-763-764-765-766-767-768-769-770-771-772-773-774-775-776-777-778-779-780-781-782-783-784-785-786-787-788-789-790-791-792-793-794-795-796-797-798-799-800-801-802-803-804-805-806-807-808-809-810-811-812-813-814-815-816-817-818-819-820-821-822-823-824-825-826-827-828-829-830-831-832-833-834-835-836-837-838-839-840-841-842-843-844-845-846-847-848-849-850-851-852-853-854-855-856-857-858-859-860-861-862-863-864-865-866-867-868-869-870-871-872-873-874-875-876-877-878-879-880-881-882-883-884-885-886-887-888-889-890-891-892-893-894-895-896-897-898-899-900-901-902-903-904-905-906-907-908-909-910-911-912-913-914-915-916-917-918-919-920-921-922-923-924-925-926-927-928-929-930-931-932-933-934-935-936-937-938-939-940-941-942-943-944-945-946-947-948-949-950-951-952-953-954-955-956-957-958-959-960-961-962-963-964-965-966-967-968-969-970-971-972-973-974-975-976-977-978-979-980-981-982-983-984-985-986-987-988-989-990-991-992-993-994-995-996-997-998-999-1000-1001-1002-1003-1004-1005-1006-1007-1008-1009-1010-1011-1012-1013-1014-1015-1016-1017-1018-1019-1020-1021-1022-1023-1024-1025-1026-1027-1028-1029-1030-1031-1032-1033-1034-1035-1036-1037-1038-1039-1040-1041-1042-1043-1044-1045-1046-1047-1048-1049-1050-1051-1052-1053-1054-1055-1056-1057-1058-1059-1060-1061-1062-1063-1064-1065-1066-1067-1068-1069-1070-1071-1072-1073-1074-1075-1076-1077-1078-1079-1080-1081-1082-1083-1084-1085-1086-1087-1088-1089-1090-1091-1092-1093-1094-1095-1096-1097-1098-1099-1100-1101-1102-1103-1104-1105-1106-1107-1108-1109-1110-1111-1112-1113-1114-1115-1116-1117-1118-1119-1120-1121-1122-1123-1124-1125-1126-1127-1128-1129-1130-1131-1132-1133-1134-1135-1136-1137-1138-1139-1140-1141-1142-1143-1144-1145-1146-1147-1148-1149-1150-1151-1152-1153-1154-1155-1156-1157-1158-1159-1160-1161-1162-1163-1164-1165-1166-1167-1168-1169-1170-1171-1172-1173-1174-1175-1176-1177-1178-1179-1180-1181-1182-1183-1184-1185-1186-1187-1188-1189-1190-1191-1192-1193-1194-1195-1196-1197-1198-1199-1200-1201-1202-1203-1204-1205-1206-1207-1208-1209-1210-1211-1212-1213-1214-1215-1216-1217-1218-1219-1220-1221-1222-1223-1224-1225-1226-1227-1228-1229-1230-1231-1232-1233-1234-1235-1236-1237-1238-1239-1240-1241-1242-1243-1244-1245-1246-1247-1248-1249-1250-1251-1252-1253-1254-1255-1256-1257-1258-1259-1260-1261-1262-1263-1264-1265-1266-1267-1268-1269-1270-1271-1272-1273-1274-1275-1276-1277-1278-1279-1280-1281-1282-1283-1284-1285-1286-1287-1288-1289-1290-1291-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GOVERNMENT OF THE YUKON TERRITORY

P.O. Box 2029
Whitehorse, Y.T.

June 4, 1963.

Chairman,
Royal Commission on Taxation,
Box 466
Ottawa, Ontario.

Dear Sir:

The following motion (Motion No. 13) was unanimously passed by the Yukon Legislative Council during their recent session.

It was moved by Councillor G. O. Shaw and seconded by Councillor H. E. Boyd that insofar as it is a fact that for reasons of health it is oftentimes vital and necessary at great personal expense to travel to large centres where specialized facilities and care are available, the Council of the Yukon Territory respectfully request the Administration to present the following proposal for consideration of the Royal Commission on Taxation:

1. That an allowance be made for actual legitimate costs of transportation to hospitals and/or medical centres outside the Yukon as a full income tax deduction in the same way as normal medical expenses.

2. That this actual cost of



1 2. transportation be supported by
2 competent medical authority that this
3 travel was necessary for the taxpayer
4 and/or dependants' health to travel to
5 aforementioned larger centre rather
6 than utilize available Yukon facilities
7 which might be inadequate.

8 It would be appreciated if this motion could
9 be given some consideration by the Royal Commission
10 on Taxation as they may see fit.

11 Yours truly,

12 (sgd) H. J. Taylor
13 Territorial Secretary

14 HJT:LW
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ANGUS. STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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Submission

BY

The International Union

OF

Mine, Mill & Smelter Workers (Canada)

BEFORE THE

Royal Commission

On Taxation

PRESENTED AT

Whitehorse, Yukon Territory

JULY 22nd 1963



ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

1 Honorable Sirs:

2 Our Union appears before you as the pioneer or-
3 ganization among metal mine workers in Canada, and indeed
4 one of the oldest organizations of workingmen in the
5 country.

6 Throughout the seventy years of our existence as
7 a Union, we have interested ourselves in the various
8 legislative matters that have confronted our membership
9 and that affected their well being, whether economic,
10 social, political or cultural. Over these many years,
11 we have advanced and projected to governments and govern-
12 mental agencies, bodies and commissions those reforms,
13 that, in our considered opinion were necessary for the
14 betterment of the lot of our people.

15 These policies and programs have never been ad-
16 vanced as the ideas or programs of a single man or a few
17 men or even of elected executive bodies of our organiz-
18 ation. Our policies and programs have been developed and
19 put forward by the members of our organization through
20 thoroughly democratic procedures of local union initiative,
21 convention action and secret ballot referendum votes.

22 In addition we pride ourselves on being one of the
23 few remaining unions whose entire leadership is chosen on
24 the basis of open nominations, and secret ballot election.
25 There are no restrictions or impediments placed in the
26 way of any member in good standing who wishes to contest
27 for any office in our Union, whether Local, District or
28 National. The sole qualification is that he shall have
29 been a member in good standing for at least one year prior
30 to his election unless he comes from a newly formed local



1 union. In this case he is free to contest for office
2 and the qualifying one year period is waived.

3 We also take pride in the fact that we are the
4 first International Union to establish by constitutional
5 measures full self government for our membership in Canada.
6 This was done in 1955 and while we have continued to
7 maintain close fraternal relations on a voluntary basis
8 with the workers in the metal mining industry of the
9 United States, the Canadian membership is autonomous and
10 self governing in every respect and in no way bound by
11 the decisions, policies and programs of the union in the
12 United States.

13 We make a special point of these practises and
14 organization of our Union for two reasons:

15 First, we wish to establish at the outset that we
16 speak with full force in the interests of the Canadian
17 membership and without fear of interference from abroad.

18 Secondly, we make these points because in advancing
19 our position before the Commission, we assert that it is
20 a position not only totally in conformity with the needs
21 of our members but is as well representative of the
22 genuine interests of Canada.

23 We say frankly that our position will come into
24 conflict with the interests of certain large investors in
25 Canadian metal mining industry. This is particularly
26 true of those investors in the industry who are in fact
27 foreigners in Canada.

28 In the course of our presentation we will pay
29 particular attention to the shape of taxation policies
30 as they affect this question. We believe there is room



1 for very considerable examination in this regard and in
2 particular with regard to the effect of taxation policies
3 on the development and stability of our country and the
4 conservation of irreplaceable natural resources in metals
5 in Canada.

6 We are pleased that our appearance before your
7 Commission is taking place here in this far north and
8 historic centre of Whitehorse because as an organization
9 we have much detail to lay before you with regard to the
10 special problems facing the residents of this frontier.
11 We commend the Commission for its decision to hold hear-
12 ings here.

13 We believe that we are the only organization of
14 working men that will be making such representations and
15 we welcome the fact that we can make them here.

16 We will lay before the Commission recommendations
17 on all of these matters and we are sure that they will
18 be given the consideration due them.

19 A PROGRAM FOR RESIDENTS OF THE FAR NORTH TERRITORIES

20 (a) What is commonly termed as the "North" consists of
21 more than 40% of the land area of Canada and whose po-
22 tential wealth, primarily in minerals mainly undeveloped,
23 must bear strategic significance to the future develop-
24 ment of Canada as a whole. Secondly, there is abundant
25 evidence to show that those Canadians making their homes
26 in the north have contributed to its growth and present
27 stage of development at a higher cost and less reward
28 to themselves and their families, than that of Canadians
29 working and residing in the other parts of Canada.

30 (b) The Northern Resources Conference, sponsored by the



1 Whitehorse Board of Trade and attended by representatives
2 of Business and Banking, Industry, Government and Labour
3 which was held in Whitehorse on March 20, 21 and 22nd,
4 1963, provides an up to date evaluation of present de-
5 velopment and the future potential of the North. The
6 following factors emerged from the conference:

- 7 1. Mining, is now, and will remain for some time
8 in the future the principal basic industry in the North.
- 9 2. There exists a tremendous potential of untapped
10 resources. This potential wealth can best be illustrated
11 by the Iron Ore discovery in the Snake River area of the
12 Yukon and Northwest Territories. Ultimate reserves, con-
13 sisting of hematite, grading at exceptionally high levels
14 are known to be in the tens of billions of tons, with
15 several billion tons available to highly productive open
16 pit operations.

17 Equally spectacular is the activity in the field
18 of oil and gas exploration. Studies indicate some
19 600,000 square miles underlaid by sedimentary rocks which
20 are a northward extension of the Western Canada Sedimen-
21 tary Basin. Basing his calculations on experiences
22 gained in evaluating what have become existing oil fields,
23 Dr. G.D. Quirin of the University of British Columbia
24 and regarded an authority on oil economics, estimates
25 ultimate possible oil reserves of 49.7 billions of
26 barrels in the North West Territories, Yukon mainland
27 and the sub total mainland Artic Islands. By comparison
28 this is approximately 10 times the known oil reserves in
29 Canada and does not include the fabulous reserves of the
30 Northern Tar Sands.



1 Power potential is equally astronomical with the
2 Yukon River and its tributaries as an example, consti-
3 tuting one of the largest remaining undeveloped sources
4 of Hydro Power on the continent.

5 3. While the potential is great and future poss-
6 ibilities enormous, actual northern development remains
7 an agonizingly slow process. We venture to state that
8 in comparison with other world undeveloped areas, Nor-
9 thern Canada would earn a prize for slowness. West of
10 the McKenzie River basin only two mines - Canada Tungsten
11 Corporation and Cassiar Asbestos have come into produc-
12 tion in the past 19 years. West of the Hudson's Bay,
13 the I.N.C.O. complex in northern Manitoba and Hudson's
14 Bay Mining at Flin Flon and the nickel company operation
15 at Rankin Inlet are the main developments presently
16 operating.

17 The majority of Uranium Mines in Northern Sas-
18 katchewan have ceased operation. Of the two principle
19 mines in the Yukon - United Keno Hill and the Yukon
20 Consolidated Gold Corporation, the operational life of
21 the latter is uncertain according to reports. The prin-
22 ciple companies now conducting exploration in the North
23 as elsewhere in the mining industry are foreign owned
24 and controlled.

25 4. Future development of mineral resources and
26 of oil and iron in particular - beset by problems of
27 transportation, climate, etc., is based on those coun-
28 tries and areas bound by the Pacific, using Skagway as
29 the post of departure. Since these countries and areas
30 now possess established sources of supply, any sales



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1 will obviously need be highly competitive.

2 5. Private Canadian Capital is highly limited
3 by the existing taxation system to undertake any major
4 all rounded development of the type of investment in the
5 North as evidenced by the past 20 years. The Federal
6 Government with its vast resources must play a vital
7 role in policy, direction and in the provision of de-
8 velopment Capital and other economic inducements for the
9 establishment of industry and the maintenance of a
10 healthy standard of living for people living and settling
11 in the North.

12 As an example - were the government to establish
13 a Smelter and Processing Plant to handle our lead, zinc,
14 silver and asbestos, now mined and shipped at consider-
15 able cost to Trail and Mannheim, Pennsylvania - it would
16 mean a considerable cut in final production costs of
17 these minerals, it would serve to activize the develop-
18 ment of other mineral fields and above all provide added
19 employment where it is very much needed.

20 As we will show later the existing taxation
21 system makes this development extremely unlikely insofar
22 as private capital is concerned.

23 7. There is every indication that unless the
24 Federal Government undertakes complete direction of
25 Northern development as an integral part of an all
26 rounded independent economic development of Canada, it
27 is not impossible to foresee that these resources now
28 being discovered and delineated will remain for the next
29 25 or 50 years as reserves of industrial raw material
30 for the industries of other countries when present



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1 resources become depleted. It should be noted here too
2 that great as these resources are, they are not inex-
3 haustible.

4 8. While the above sketchy and incomplete re-
5 ference to the economic situation in the North may
6 seemingly be beyond the terms of reference of your
7 Commission, nevertheless, and because of the interrela-
8 tion of taxes, tax structure and the general economy,
9 we urge your Commission to consider this aspect in every
10 detail.

11 Further, since any major undertaking in Northern
12 Development requires primary leadership of the Federal
13 Government and is dependent on the extent of the finan-
14 cial wherewithal at its command, we believe the work of
15 your Commission can be of immense value to the further
16 growth of the North.

17 Under existing conditions, we emphasize the role
18 of the Federal Government primarily because there is no
19 provincial government in the northern territories of
20 Yukon and North West to play the traditional role of
21 encouraging the development of secondary industry etc.
22 in the area. We note that there will be no submission
23 before your Commission on behalf of the entire Terri-
24 tories and that in fact no central authority to make
25 such.

26 This we submit is a special point of consideration
27 that should be undertaken by your Commission. After all,
28 the fact that after 60 years of Yukon development, the
29 Yukon Territorial Government is forced to rely for 1/3
30 of its revenue from liquor sales, is a sad indicator of



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1 the present stage of our Northern economy. Basically
2 the solution to most problems in the North is the need
3 for industrial expansion.

4 PEOPLE COME FIRST

5 1. Much has been written and spoken regarding
6 recognition of the special needs of people living and
7 working in the North. Despite a harsh climate, a lower
8 standard of living, lack of standard amenities and ser-
9 vices the people of the North have survived and whatever
10 progress has been achieved is to their credit.

11 2. To the best of our ability, we list below
12 data describing comparative economic and social condi-
13 tions of the northern worker.

14 Average Weekly Income

15 1. D.B.S. - Labour Gazette, March 1963 list
16 the following average weekly income at Dec. 1962.

17 Metal Mining

18 Canadian Average	\$90.94 annually 52 wks.	\$4,730.88
19 Alberta & N.W.T.	80.45 "	4,185.40
20 B.C. & Yukon	85.20 "	4,380.40

21 Service Trades

22 Canadian Average	41.75 "	2,171.00
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23 Construction

24 Canadian Average	71.89 "	3,808.28
25 Overall Canadian Average	77.07 "	4,007.64
26 Wages & Salaries DBS, 1961		

27 2. Earnings Yukon Mines, 1962

28 Miner (exclusive of bonus - weekly)

29	\$95.22 "	4,951.44
30 Labourer	83.72 "	4,353.44



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1 Average Weekly Income - con't

2 Mill Operator \$95.22 annually 52 wks. \$4,951.44

3 3. Earnings in Mine N.W.T.

4 Miner (exclusive of bonus) weekly

5 92.62 " 4,816.24

6 Labourer 86.24 " 4,484.48

7 Mill Operator 91.14 " 4,739.28

8 Spot Checks of Other Trades in Various Locations

9 Yellowknife

10 Mine Cookery - Kitchen help - \$22.50 per week,
11 including board - no hospital plan
12 or vacation pay.

13 Garage Partsman- weekly wage \$83.90 - vacation
14 pay - medical plan

15 Electric Co. Utility Man (Meter Reader - Line Man)
16 \$79.20 weekly - 6 day week
17 no vacation pay - no medical plan

18 Baker - 60 hour work week - \$88.00 per week

19 Truck Driver - \$83.90 per week 6 day week

20 Restaurant Dishwasher - \$35.00 per week - 6 day
21 week, including one meal and light
22 lunch daily

23 Store Clerk - \$42.50 per week - some holiday pay

24 Whitehorse

25 Store Clerk - beginners \$1.00 per hour, if satis-
26 factory after 6 months \$1.05 per
27 hour

28 Common Labour - \$1.50 per hour

29 Garage Mechanics - \$1.80 to \$2.75 per hour

30 Waitress - \$.85 to \$1.00 per hour



Selected Rates of Pay - Outside Service Department

of Highways

Cook 2 - Highest Rate -

from \$323 per month to \$339 (40 hr. wk.)

" 383 " " " 402 (48 hr. wk.)

" 438 " " " 460 (56 hr. wk.)

Flunkey -

from \$258 per month to \$271 (40 hr. wk.)

" 298 " " " 313 (48 hr. wk.)

" 338 " " " 355 (56 hr. wk.)

Manual Labour

Axeman and Faller

" 307 " " " 321

Blacksmith 386 " " " 405

Powderman 1 329 " " " 345

Rough Carpenter

from \$324 " " " 340

Teamster " 304 " " " 317

Observations and Conclusions

1. Organized statistics for the Territories relating to wages are extremely scarce if not non-existent.

2. The figures quoted above while they include reference to those areas covered by Collective Bargaining Agreements, one Government Department and some on the spot checks - they are mainly from areas around principal transportation systems and do not include the Artic Coast or the interior.

3. Where the incomes appear higher than the Canadian average they are based on longer hours worked.



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1 4. From the information available, we can state
2 that wages in the North are not higher than Canadian
3 wages.

4 In general and in many cases, they are lower,
5 particularly those of native people working for industries
6 not covered by Collective Bargaining Agreement or the
7 Government.

8 Cost of Living - Food

9 1. The attached simple price comparison includes
10 only areas along the highway to Whitehorse and Yellow-
11 knife and excludes the Artic posts and interior com-
12 munities served mainly by air.

13 2. Generally in comparison to Edmonton retail
14 prices - such staples as bread, flour, sugar, milk, eggs
15 and potatoes are higher anywhere from 15% to 100%.

16 3. The difference in prices in fresh meat are
17 somewhat less and range anywhere from 10% to 20%.

18 4. Fresh vegetables and fruits are higher -
19 being perishables and requiring rapid transportation and
20 refrigeration facilities.

21 5. Aside from a simple comparison of prices -
22 lack of variety and the narrow range of selection exist-
23 ing in the North adds to the price.

24 6. We believe a conservative figure of 25%
25 would adequately describe the higher cost of food in
26 the North.

27 7. Restaurant meals reflect this difference,
28 but are slightly higher than the quoted figure above.



1 Clothing

2 While we submit no clothing prices and even if
3 no price variation existed, clothing costs are naturally
4 higher due to the longer winters and the need of heavy
5 warm clothing for several months more than "outside".

6 Housing and Rents, Heating and Electric Power

7 1. A large section of northern housing is sub-
8 standard and would be classed as slum dwellings in our
9 urban centres. Rents vary according to each community
10 and are relatively high. Where they are low in money
11 price, the cost is made up in substandard living. Native
12 homes are almost entirely of this category. Comparative
13 higher northern costs of housing can best be illustrated
14 by referring to the Cost Estimates formulated by the
15 Construction Division of the V.L.A. These estimates
16 are based on homes consisting of one story - 2 to 3
17 bedrooms and of simple construction.

18 Edmonton, Alberta	\$.52	per cubic foot
19 Fort St. John, B.C.	.55	" "	" "
20 Jasper Park	.55	" "	" "
21 Yellowknife, N.W.T.	.73	" "	" "
22 Fort Smith, N.W.T.	.76	" "	" "
23 Whitehorse, Y.T.	.74	" "	" "
24 Watson Lake, Y.T.	.77	" "	" "
25 Haines Junction, Y.T.	.80	" "	" "

26 2. Heating and Electric Power are undoubtedly
27 the highest contributing factors in expensive northern
28 living. Not only is the heating limited to oil, wood
29 and coal, excluding electric power and cheap natural
30 gas, but the price of fuel oil is more than double



1 Edmonton prices and propane cooking gas almost triple.
2 Longer winters also necessitate a heavier consumption
3 of fuel and electric power.

4 (See appended price list)

5 Transportation

6 Personal transportation in and out of the North
7 is an extremely high cost item. For a family of 4, with
8 2 children being of age to qualify for one adult air
9 fare a return trip from Mayo to Vancouver or Edmonton -
10 for purposes of holidays, illness, etc. would cost 3 x
11 190 or \$570.00. This cost can be added to higher edu-
12 cation costs for those youngsters desiring to attend
13 Universities. While alternative transportation exists
14 for those communities, which are limited in number and
15 located on highways, many communities rely solely on
16 air transport.

17 Automobile travel is comparatively more costly.
18 Gasoline prices range from .28¢ to .35¢ more in price
19 than outside prices. Repairs, oil, and depreciation
20 bear an equally higher cost.

21 General

22 While the comparisons are by no means exhausted,
23 we believe the above is sufficient to indicate the type
24 of economics confronting northern families.

25 Social and Labour Conditions in the North

26 1. Annual Vacations

27 No vacations are guaranteed by law in the Northwest
28 Territories. While the Yukon Ordinance on Vacations
29 with Pay guarantees two weeks holiday to every worker,
30 by calculated holiday pay exclusively on the base rate



1 and excluding overtime, incentive pay and bonus, Yukon
2 workers are discriminated against.

3 2. Hours of Work Act

4 No such act exists in the Northwest Territories. The
5 Yukon act is generally in line with neighbouring Provinces

6 3. Minimum Wage Act

7 Neither Territory guarantees a minimum wage by law.

8 4. Workmen's Compensation

9 Both Territories have enacted Compensation Laws. The
10 fact that neither Territory possesses its own insurance
11 fund and Administrative Board, but relies on private
12 Insurance Companies, makes the Act a clumsy one, result-
13 ing in delays in processing of claims as well as in-
14 creased costs to the employer.

15 The following comparative notes between the Acts
16 in the Territories and neighbouring Provinces shows
17 much lower rates paid to injured workmen in the North.

18 Benefits in Case of Disability

19 Alberta: Total - 75% of earnings - minimum \$35 per wk.
20 on earnings if less.

Partial - Proportion of 75% of earnings based
on impaired earning capacity or 75% of
difference in earnings before and
after accident.

25 Maximum earnings reckoned - \$5,00 per annum

26 B.C.: Total - 75% of earnings - minimum \$25 per wk.
27 on earnings if less.

Partial - Proportion of 75% of earnings based
on impaired earning capacity or 75% of
difference in earnings before and



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1 B.C.: Partial - (con't)
2 after accident.
3 Maximum earnings reckoned - \$5,000 per annum.
4 Sask: Total - 75% of earnings - minimum of \$30 per wk.
5 Partial - as above
6 Maximum earnings reckoned - \$6,000 per annum
7 Yukon & Total - 75% of earnings - minimum \$35 per wk.
8 N.W.T. on earnings if less
9 Partial - as in Alberta.
10 Maximum earnings reckoned - \$4,000 per annum
11 in the Yukon - \$4,500 in the N.W.T.
12 in the case of the Yukon Act an injured workman
13 receives the lowest compensation - some 20% below the
14 neighbouring Provinces.

15 5. An entire chapter could be devoted to the
16 primitive or non-existent service placed on northern
17 residents in the field of modern up to date daily news-
18 papers, libraries, recreational facilities, etc. While
19 the main points in the Yukon and the McKenzie Basin have
20 access to public phones and telegraphs, others have to
21 use the complicated systems of the various Government
22 Departmental Communications systems. Some improvements
23 have been made in CBC Radio Services. Long before the
24 advent of these incomplete services, northern citizens
25 however, have contributed via taxes to the operation of
26 the CBC in other parts of Canada. Undoubtedly CBC - TV
27 for the North is a luxury far removed.

28 There is an exceptionally heavy load of welfare
29 costs here in the north due to the seasonal character
30 of a great deal of employment, the almost insuperable



1 obstacles to establishing normal family life and the
2 attendant broken homes etc. that follow almost inevi-
3 tably from these conditions.

4 Arguments in Favour of Proposed Tax Changes

5 1. The Government of Canada recognizes that there
6 is an exceptional situation existing in the North. In
7 addition to salaries and wages paid to its' employees
8 the Government has by Order in Council established the
9 Isolated Post Regulations, or commonly known as the
10 Northern Allowance. These Regulations extend the fol-
11 lowing supplementary payments to those employees working
12 in Northern areas designated in specially prepared
13 tables, and over and above wages and salaries.

14 (a) Travelling expenses - including transportation
15 of luggage and furniture on assignment to new posts.

16 (b) Travelling expenses while employee on fur-
17 lough or when ill and requiring medical attention.

18 (c) Isolation allowance with a maximum for
19 salaried married and single category of \$2,100 and \$1,200.
20 In the case of hourly rated employees, a maximum of \$1.00
21 per hour for married men and \$.57 per hour for single.

22 (d) A maximum Food Allowance for salaried married
23 and single category of \$1,040 and \$624 respectively. In
24 the case of hourly rated employees, a maximum of \$.50
25 per hour for married personnel and \$.30 per hour for
26 single.

27 (e) In addition two other equally generous
28 categories are in existence - covering fuel and utilities
29 and a further supplementary Isolated Post Allowance.

30 Thus according to the listed schedule a married



1 salaried employee in Watson Lake, Y.T. would receive
2 \$1,140 Isolation Allowance, plus \$320 food allowance.
3 An hourly rated married employee working in Dawson City
4 would receive \$.55 per Isolation Allowance - \$.27 per
5 hour food allowance - \$.21 per hour supplementary Isola-
6 tion Allowance and \$.26 per hour to cover fuel and
7 utilities.

8 2. Were the proposed cut in taxes to be affected
9 we have no estimate of the resultant lost revenue to the
10 Federal Government. The percentage undoubtedly would
11 be small. The extra income to the northern resident
12 could serve to provide some boost to the local northern
13 market. We believe Canadians generally would support
14 such a subsidy as they did a larger one to the Province
15 of Newfoundland on its advent to the Dominion.

16 3. Since special incentives via tax write-offs
17 are granted the mining industry as development induce-
18 ments, it is only fair to grant similar conditions to
19 the people operating the industry.

20 4. From the point of view of Administration,
21 no serious difficulty should be encountered. Lines of
22 demarcation can be patterned upon those established in
23 the Isolated Posts Regulations. We know of no fairer
24 way of establishing a northern subsidy.

25 5. We feel that these inequities require atten-
26 tion in the scheme of taxation and we respectfully urge
27 your Commission to recommend.

28 (a) Amendment to the Income Tax Act to provide
29 an additional \$2,000.00 income tax exemption for all
30 tax paying citizens in the North. These increased



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1 exemptions are proposed in addition to our general pro-
2 posals for increased exemptions.

3 (b) In addition we urge the abolition of the
4 Excise Tax on all commodities being sold in the North.

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1 The Metal Mining and Processing Industry, The Federal
2 Tax Laws and The Canadian Economy

3 Under the Income Tax Act the metal mining industry
4 in Canada receives treatment that is vastly preferential
5 over other industries. The arguments advanced in support
6 of this state of affairs generally revolve around the
7 degree of "risk" involved in developing a producing
8 mine, and the need to encourage investment to develop
9 the industry, etc.

10 Let us say at the outset that we reject the pro-
11 position that taxation policies are decisive in the econo-
12 mic development of Canada. We maintain that while an
13 "incentive" taxation policy may affect to a larger or
14 smaller degree the growth or otherwise of an industry,
15 what is essential to growth is an expanding market for
16 goods produced and a faster return on the invested
17 dollar. It is this last that taxation policy can and
18 does affect.

19 In the case of metal mining, however, the "in-
20 centives" are unusually generous and have unquestionably
21 influenced the trends in the industry during the past
22 years. On the question of "risk", although we feel it
23 is an understatement, we join Mr. John Davis in "Mining
24 and Mineral Processing In Canada", a work authorized by
25 the Royal Commission on Canada's Economic Prospects when
26 he says:

27 "Nevertheless, in this second half of the 20th
28 century, it is becoming increasingly evident that mine
29 development is a sound business venture."

30 There are certain characteristics of this industry



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1 that are peculiar to it The first of these is that it
2 is more heavily dominated by the investment of foreign
3 (mostly U.S.A.) capital than any other industry.

4 U.S. investment in the metal mines has accelera-
5 ted at a prodigious rate during the past few years.
6 Between 1953 and 1960, investment more than doubled
7 mounting from \$995 millions in 1953 to \$2,058 millions
8 in 1960. Of this huge sum 63.8% is U.S. invested or
9 controlled, 27.5% is Canadian and the remaining 8.7%
10 is divided among various other foreign investors. In
11 dollar sums U.S. capital amounts to \$1,313 millions,
12 Canadian is \$565 millions with the remaining \$180 millions
13 divided among the other foreign investors.

14 The index of mineral production per capita between
15 1948 and 1961 shows similar spectacular increases. Dol-
16 lar value per capita more than doubled from \$63.97 in
17 1948 to \$141.12 in 1961. Using 1949 as a base year with
18 an index of 100, the volume production of metals almost
19 trebled from 90 in 1948 to 263.2 in 1961. (Page 516,
20 Canada Year Book - 1962).

21 The same sources tell us that "For all types of
22 manufacturing there was an increase of 61.2% in volume
23 of production during the 1954-59 period" something much
24 less spectacular than the tremendous increase in metal
25 mining.

26 It is against this spectacular increase in invest-
27 ment and production that the preferential taxation system
28 for the industry must be viewed.

29 We take issue with the fact that the investment
30 in the industry has been primarily foreign investment.



The taxation laws are framed in such a way as to encourage the fastest possible exploitation of irreplaceable natural resources in their primary and raw form and to discourage the development of secondary processing plants. Precisely during the above mentioned years when there has been such a tremendous influx of foreign capital into the industry literally dozens of new mining enterprises producing the raw ore or concentrates have been developed. During the same period the number of secondary processing plants (smelter and refineries) built is negligible. The following table is enlightening on this score:

GROSS PROFITS AND INCOME TAXES PAID BY THE
MINING AND MINERAL PROCESSING INDUSTRIES OF

CANADA 1926-1954

(expressed as percentages of gross value of production)

<u>Mining</u>	<u>1926-30</u>	<u>1931-35</u>	<u>1936-40</u>	<u>1941-45</u>	<u>1946-50</u>	<u>1950-54</u>
Gross profits as % of GVP	41%	39%	52%	41%	37%	33%
Income tax as % of GVP	-	-	-	-	7%	9%
<u>Mineral Processing</u>						
Gross profits as % of GVP	9%	3%	4%	5%	7%	6%
Income tax as % of GVP	-	-	-	-	2%	3%
<u>Total Manufacturing</u>						
Gross profits as % of GVP	6%	3%	8%	8%	9%	8%
Income tax as % of GVP	-	-	-	-	3%	4%

(Table 44, Royal Commission on Canada's Economic Prospects - Mining and Mineral Processing in Canada" -



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1 The same source on page 323 states:

2 "Conscious of the advantage to themselves of re-
3 porting as high a profit as possible on their mining
4 operations and minimizing the profit position in respect
5 to smelting and refining, the integrated producers have
6 for years followed the practice of pricing their ores
7 and concentrates at a maximum. The reported materials
8 expenditures of the smelters and refineries have been
9 correspondingly increased and the profit position in
10 respect to primary manufacturing thereby held to a
11 minimum."

12 The note at the end of the chapter states:

13 "As long as the Canadian mining industry has a
14 strong tax incentive to maximize the price on ores and
15 concentrates and thereby minimize the profit position of
16 smelters and refineries, there does not appear to be much
17 room for the operation of custom smelting and refining
18 operations in this country. Any firm which attempted to
19 set up its own facilities and to buy most of its ores
20 and concentrates from others would find price considera-
21 tions such as to discourage this practice. Only through
22 corporate integration can full advantage be taken of the
23 Canadian tax system."

24 We agree with the foregoing analysis but believe
25 that in the interests of clarity more needs to be said.
26 The central point here is simply that it is the giant
27 corporations with integrated production of ores and of
28 smelting and refining processes that can take the greatest
29 advantage of the tax system. We believe it is closer to
30 the kernel of the matter when it is said that the tax



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1 system is designed to assist these giant "integrated"
2 U.S. monopolies and deliberately curb the development of
3 free competition.

4 Since the vast bulk of investment in the industry
5 is U.S. or controlled by U.S. interests and is, in fact,
6 monopoly in character, there is little or no incentive
7 for native Canadian capital to invest in the primary
8 processing of ores.

9 The industry has become dominated by foreign U.S.
10 capital to the point that our precious assets of natural
11 mineral resources are being dug up by Canadians, from
12 Canadian ground, shipped off to the U.S. for processing
13 and manufacturing and the tax system of the country is
14 framed to encourage this development. The above mentioned
15 source is instructive on this point as well when it says:

16 "Assuming (and this is an important proviso) that
17 the operation is economic in a truly international sense,
18 the benefit to the Canadian economy of converting ores
19 and concentrates into such primary manufactured forms
20 as metal in ingot form is an approximate doubling of in-
21 come. This multiplying effect would be further enhanced
22 by increased Canadian participation in the ownership of
23 stocks of mining companies operating in this country."

24 We do not wish to be misinterpreted as saying that
25 we are unalterably opposed to foreign investment in
26 Canada's metals industry. We do however propose that tax
27 systems should be devised that would give Canadian in-
28 vestment much greater incentive in the industry and cur-
29 tail the monopoly position presently held by the foreign
30 investors from the U.S.A. This we contend would be good



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1 for our country and our people. There is no doubt but
2 that one of the primary reasons for the huge U.S. invest-
3 ment is based on the simple fact that they need our raw
4 ores.

5 The increase in investment, as we have said has
6 been spectacular. Likewise figures indicate almost a
7 threefold increase in the volume of production of Canadian
8 metals in their raw form of ores and concentrates.

9 But examination of the taxes paid by the industry
10 show no such startling increases. In fact the following
11 table will show a relatively small increase in total taxes
12 paid into the public treasury by the industry:

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1 In examining the above table there must be kept
2 in mind a few very pertinent facts.

3 Firstly, the percentage rate of taxation (calcula-
4 ted on the basis of "Income Tax Declared" as a percentage
5 of "Current Year Profit") has fluctuated rather widely
6 during the years set out. On the whole it has hovered
7 around the 40% figure in the later years. Secondly,
8 there has been a wide variation in the number of com-
9 panies reporting.

10 What at first glance does not seem to jibe how-
11 ever is the fact that as between let us say 1949 and
12 1960 there are some 14 more companies reporting, the in-
13 crease in "Current Year Profit" is less than \$5,000,000
14 and the increase in "Income Tax Declared" is slightly
15 more than \$13,000,000. This on a superficial basis,
16 might lead one to believe that everything we have said
17 up to this point with regard to increased production,
18 preferential taxation etc. is basically incorrect.

19 However, let us cite certain other facts for the
20 Commission. In the year 1955 five corporate and in-
21 tegrated giants in the metal mining field in Canada
22 (International Nickel, Consolidated Mining and Smelting,
23 Falconbridge, Noranda and Hudson Bay Mining and Smelting)
24 show an aggregate net earning of \$326,539,313 after the
25 deduction of costs but before taxes were paid. Taxes
26 paid for the year by the same five companies in aggregate
27 amount to \$81,656,597. For the year the "Big Five" (as
28 we shall call them) showed a rather handsome aggregate
29 net profit after taxes of \$168,986,478.

30 The year 1959 shows Net Earning for the "Big Five"



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1 of \$274,222,986. Aggregate taxes amounted to \$81,174,257.

2 Net profit in the aggregate is \$131,646,759. (All
3 figures compiled from Financial Post Survey of Mines.)

4 The figures for other years, we believe would
5 show the same general situation obtaining for the "Big
6 Five".

7 What is obvious here is that in compiling "Current
8 Year Profit" the companies are allowed enormous con-
9 cessions in calculating their taxes. We do not make
10 claim to being sufficiently expert in the field of cal-
11 culating these taxes to be able to inform the Commission
12 on the intricacies involved, but we respectfully submit
13 that it would be an area worthy of detailed study by the
14 Commission.

15 We presume, without having access to the details
16 (and hence are subject to correction) that the depletion
17 allowances and the other preferential concessions granted
18 the metal mining industry explain the above apparent
19 discrepancy wherein five companies show in the two years
20 cited net earnings two-and-one-half ($2\frac{1}{2}$) or more times
21 as great as Current Year Profits show for the same years
22 for all companies in the Department of National Revenue
23 official publication "Taxation Statistics" and indeed
24 show a total of taxes paid far in excess of "Income Tax
25 Declared" in each case in the same publication.

26 Be that as it may, the rise in employment in the
27 mining industry has been less than spectacular. With
28 1949 as a base year of 100 this index of employment rose
29 between 1953 and 1961 by 19.9 points ... from 112 to 131.9

30 There is no doubt that the people of Canada are



1 receiving short shrift in the development of the metal
2 mining industry. Policies that allow the one-sided
3 development of the industry and that encourage the
4 wholesale digging up and shipping out of the country of
5 our mineral resources in their raw form is in essence
6 anti-Canadian. Surely the national interest requires a
7 revamping of the taxation laws that not only permits
8 this development but encourages it to the detriment of
9 Canadian investment, Canadian jobs, and Canadian sales of
10 primary processed (ingot form) metals, not to speak of
11 manufactured articles in the world's markets.

12 We see no reason for the continuance of this situa-
13 tion and we most strongly urge upon the Commission meas-
14 ures designed to rescue our metal mining industry from
15 the control of those who are now exploiting it for the
16 benefit of themselves and the detriment of Canada.

17 In case there is question as to the validity of
18 the above statement, we quote as an authority Mr. Eric
19 J. Kierans, President of the Montreal & Canadian Stock
20 Exchange, from a paper read by him at a meeting of the
21 Canadian Political Science Association in the City of
22 Quebec:

23 "The purpose of investment in subsidiaries is not
24 simply to earn a return (profit) on the equity (invest-
25 ment) but also to control markets for the export of parts,
26 components and raw material concentrates by the parent
27 company dividends may be the least important pay-
28 back ..." says Mr. Kierans in his frank statement.

29 We state emphatically that it is past high time
30 a decisive stand was taken on this score and respectfully



1 suggest to the Commission that in the revamping of our
2 taxation system to encourage the investment of Canadian
3 capital in the primary and secondary processing of the
4 metals industry as well as the curbing of the factastically rapid rate of exploitation of our mineral resources
5 in their raw form by foreign capital is a good place to
6 begin.

8 While our mineral resources are tremendous and
9 perhaps not fully known as yet, they are by no means
10 limitless. Once used, they are permanently gone. A
11 corollary of this foreign control is of course the deliberate holding back of development as in the north.

13 The conservation of these resources and a planned
14 development of them to bring a maximum of benefit to the
15 people who inhabit this land, we suggest is a most desirable end. We believe the warning is timely and that a
16 continuation of the uncontrolled exploitation of our
17 mineral resources will eventually bring the bleak prospect of seriously depleted supplies.

20 On this point our Union has been specific on
21 many occasions having repeatedly discussed the question
22 in Conventions as well as in various local union and
23 executive sessions. We quote from the Officers' Report
24 adopted at the last Convention of the Union in Edmonton
25 in September 1961:

26 "....the main thing is that the economy has been
27 developed in a lopsided way; the concentration has been
28 on our rich natural resources, developed under the impulse of foreign capital and for the use and profit of
29 industry outside of Canada; most of our raw materials
30



1 are exported to the United States, for industrial pro-
2 cessing manufacture there, at the expense of Canadian
3 industrial development and carrying with them hundreds
4 of thousands of jobs which should go to Canadian workers."

5 As long ago as 1955 at the Convention where Canadian
6 autonomy was projected and established by the membership
7 of our Union, the report of the Convention stated:

8 ".... if production and employment in metal mining
9 are rising, this is under the stimulus of, not of Canadian
10 capital, but of U.S. capital which is being poured into
11 our country ... the bulk of this production both new and
12 old is exported, most of it to the United States for in-
13 dustrial use there ... Canadian natural resources are thus
14 not being used as the basis for building up Canadian in-
15 dustry but are being shipped for industrial manufacture
16 in another country that is exploiting us ..." Page 47,
17 Report to The Canadian Constituent Convention ... Ross-
18 land, B.C. 1955.

19 To sum up on this section of our submission, we
20 state that the pattern of investment in the metal mining
21 industry, encouraged by the taxation system of Canada is
22 an undesirable one from the point of view of the national
23 interests of Canada. There are four distinctly undesir-
24 able trends in the situation that we believe require
25 correction:

26 1. The taxation system has encouraged foreign
27 and particularly U.S. investment to the point that the
28 development and production policies, processing policies
29 and sales policies affecting our metals production is
30 determined not in Canada but in another country..



1 2. The taxation system has discouraged the develop-
2 ment of both primary and secondary processing plants in
3 Canada thus severely limiting a full development of our
4 economy.

5 3. The taxation system has encouraged the unplanned
6 and reckless exploitation of irreplaceable mineral re-
7 sources in the interests of the economy and profits of
8 foreign investors in a foreign country and to the detri-
9 ment of Canada's national development and economy.

10 4. The spectacular increases in production and
11 productive capacity of the metals industry in Canada has
12 not brought about any commensurate development of job
13 opportunities for Canadian workers.

14 Before making our proposals to the Commission, we
15 will turn to a more detailed examination of the various
16 special and preferential features of the taxation system
17 that have assisted in bringing about this situation.
18 There are a number of these features:

19 1. THREE YEAR EXEMPTION FROM INCOME TAXES

20 The most significant item of preferential treat-
21 ment in the Income Tax Act with regard to the metal min-
22 ing industry is Section 83 (5) which permits three clear
23 years of production for profit in which total exemption
24 of income taxes is made. The timing of this period of
25 tax moratorium is in the hands of the company concerned.
26 The only stipulation being that the three years must be
27 in one period and will date from what the company con-
28 siders to be "production in reasonable commercial quanti-
29 ties." This, of course, is generally interpreted to be
30 maximum production.



1 We know of no other industry or enterprise that
2 received this preferential treatment. The argument that
3 there is required some recognition of the "risks" in-
4 volved in the development of a mine, may still carry
5 some validity for the small independent mine operator
6 who, without benefit of all the modern methods of deter-
7 mining the physical features, extent and grade of under-
8 ground ore bodies, and who may tackle the development of
9 the mine without prior knowledge of many of the features
10 of the development of a successful mine. We maintain,
11 however, that it is stretching credibility more than a
12 little to apply this yard stick to the huge modern cor-
13 porations that have almost precise knowledge of the ore
14 body, costs of development etc. before they begin the
15 development of the property. Clearly under these last
16 named conditions the question of "risk" is about the
17 same as that of a real estate dealer who builds apartment
18 houses for rent.

19 If the argument supporting this preferential
20 treatment under the tax system is that of incentive for
21 the investor, then certainly we agree that in this it
22 has been eminently successful as one of a series of
23 "incentives" that brought about the spectacular increases
24 in investment mentioned earlier. But we believe this to
25 be a concession that in the main goes towards the enrich-
26 ment of corporations and shareholders who do not even
27 live in Canada. And there is great doubt as to whether
28 this concession has really brought big investments into
29 the country as its supporters claim.



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1 In general depreciation allowances (capital cost
2 allowances) for industry under the Income Tax Act amounts
3 to 20% on equipment and from 5% to 10% on buildings.
4 However for mine buildings, machinery and equipment, the
5 allowance is 30%. For underground shafts and haulage
6 ways the rate is 100% with the total cost being written
7 off. Taken together these exceptional allowances permit
8 the write-off of investment at a very rapid rate. Theo-
9 retically these allowances are recoverable on disposal
10 of the property but since the disposal of assets in the
11 event of a mine shut down are almost without exception
12 on a salvage basis, there is practically no recovery
13 from such transactions. In addition no one has as yet
14 discovered the practical means of "disposing of under-
15 ground shafts or haulageways". More important for the
16 really large mining concerns whose life expectancy runs
17 into decades, the depreciation allowances serve simply
18 as a means of fattening the profit side of the ledger at
19 the expense of justifiable tax payments that somebody
20 else has to pay.

21 We believe that we are on firm ground when we
22 assert that these allowances under our taxation system
23 are more generous than those of any other country.

24 3. DEPLETION ALLOWANCES

25 These are particularly generous allowances and
26 are peculiar to this industry and the petroleum industry.
27 In all mining enterprises, except gold, and the non-
28 bedded metallic deposits, the allowance is one-third of
29 profits for the given year and for gold more generously
30 it is 40% or \$4.00 per ounce of gold produced which ever



1 be the greater. Non-bedded metallic deposits receive
2 no such concession.

3 This is the only place as far as we can discover
4 where the taxation system makes recognition of the fact
5 that our mineral resources are a wasting and irreplace-
6 able asset and strangely enough this recognition is not
7 extended to the point that the resources are a natural
8 phenomena of nature from which the entire nation should
9 prosper but only to the rather doubtful point of fatten-
10 ing the profit side of the ledger for corporations or
11 private shareholders. Here again the non-payment of tax
12 under these provisions simply means a special and very
13 (for the corporation or individual shareholder) valuable
14 concession in taxes that somebody else has to make up
15 for in the general scheme of essential taxation.

16 There is some argument as to whether or not the
17 Canadian system of depletion allowance calculation, based
18 on the net profit is more or less generous to the corpor-
19 ation than the U.S. system which is based on the calcula-
20 tion at a lower rate but on the gross profit. To put it
21 mildly, as far as we are concerned, the granting of such
22 an allowance on resources that are the birth right of
23 the Canadian people for the purpose of private enrichment
24 is repugnant in the extreme and we propose a re-vamping
25 of the system to eliminate such allowances for foreign
26 investors.

27 4. SHAREHOLDERS ALLOWANCES

28 A special allowance is granted the recipient of
29 dividends from mining shares. This applies to shareholders
30 of a company whose income is more than 25% derived from



1 mineral production in Canada and amounts to from 10% to
2 20% of the income from the dividends. Again we know of
3 no other country that allows such generous treatment and
4 after examining all the various special allowances
5 granted the mining companies, we can only assert that
6 this is the reverse of the proposition of "taxation on
7 taxation." This is an "allowance on an allowance" and
8 to permit the individual to escape from payment of taxes
9 that are already reduced by virtue of special concessions
10 to the corporation is unnecessarily preferential.

11 5. PRE-PRODUCTION COSTS ALLOWANCES

12 Regulations under the Act permit the writing off
13 of pre-production costs at a rate not to exceed 25% per
14 year.

15 The writing off of these expenses is augmented
16 by a further provision that permits the deduction of
17 exploration and development costs. This is a special
18 form of deduction on costs that ordinarily would be con-
19 sidered to be capital in nature. These may be deducted
20 in the year in which the costs were incurred or should
21 there be a situation where the property is not brought
22 into actual production or for one reason or another these
23 costs exceed the income of the property, they may be
24 either deferred or as another alternative deducted from
25 the total income of the corporation from all sources.

26 Once again it must be pointed out that the extreme
27 manoeuvre ability of these deductions is a very great
28 assistance to the large or monopoly corporations whose
29 exploration costs are in fact subsidized by the general
30 taxpayer who is not permitted such very great leeway in



1 the calculation of taxes.

2 6. Other favourable concessions exercised under
3 the taxation system as applied to metal mining are allow-
4 ances for provincial taxes where these apply; the exemp-
5 tion of certain goods from consumption or sales tax under
6 the Canadian Excise Tax Act and the exemption of primary
7 metals produced in Canada whether exported or consumed
8 domestically from this tax and finally, the exclusion of
9 many articles of mining machinery and equipment from
10 custom duties.

11 From the foregoing it can quickly be established
12 that the metal mining industry, as we stated at the out-
13 set, is a favoured industry, enjoying taxation concessions
14 that are vastly preferential in nature.

15 Such favouritism for this mainly U.S. owned and
16 controlled industry we regard as unjustified. We reject
17 the argument that the policies involved are in fact
18 assisting this country in the development of the industry.
19 On the contrary we contend that the taxation policies
20 presently in effect assist in the wholesale and rapid
21 fire mining out of irreplaceable mineral resources.

22 Back in 1954 Mr. James Muir, then President of the
23 Royal Bank of Canada said: "It appears that American
24 capital is going to own Canada. We are getting into the
25 position where, very definitely in the economic sense
26 we are becoming an American satellite. I object to
27 Canada's being regarded as either an economic or poli-
28 tical annex of the United States ... my fear at the mo-
29 ment is that the Government by its inaction is selling
30 Canada into economic bondage."



1 To which, nine years later we believe fervent
2 "amens" are in order to these prophetic words. We can
3 only recommend with all the emphasis at our command that
4 the words now be heeded, and that vigorous and realistic
5 measures b/ advanced to reverse this still developing
6 trend.

7 PROPOSALS RE TAXATION POLICIES ON THE METAL MINING INDUSTRY

8 1. Capital Gains

9 We propose that there should be a capital gains
10 tax applied in this industry. This we believe should be
11 applied so that there can be no question that huge amounts
12 of wealth that have accumulated in the form of capital
13 development and plant as well as undistributed profits
14 escaping taxation.

15 2. Depletion Allowances

16 We propose that this allowance be made only in
17 those cases where the production of metals has proceeded
18 at least to the primary or ingot stage within the bound-
19 aries of Canada. In the event of the shipment of ores
20 and concentrates outside the boundaries of Canada for
21 primary and secondary processing we propose that the
22 deduction of depletion allowances not be permitted.

23 3. Government Sponsored Custom Process Plants

24 In cases where the foreign and monopoly domination
25 of our mineral resources created a situation where devel-
26 opment is being held back we propose the erection of
27 custom smelting and refining plants by the Government or
28 by the investment of Canadian capital in these plants with
29 adequate tax incentives.



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1 TAX RELIEF FOR WAGE EARNERS IN THE METAL MINING INDUSTRY

2 We have dealt at length with the special problems
3 facing the men and their families who are employed in the
4 far northern reaches of this country.

5 There are other specialized features of the mining
6 industry that bear heavily against the economic well being
7 of men in the industry and their families. In practically
8 all cases mining towns are one industry towns, often off
9 the beaten track. Real estate values, and in particular
10 homes are valuable only as long as a given ore body con-
11 tinues and the industry continues operation. There are
12 all too many instances of men who have found themselves
13 facing the loss of a lifetime of hard work and saving
14 invested in homes which suddenly become valueless when
15 the mining town becomes a "ghost town".

16 On numerous occasions we have projected before
17 Government spokesmen the proposal that in view of the
18 special considerations given the mining corporations in
19 the form of three year tax exemptions that this considera-
20 tion should be extended to the worker who "risks" his
21 savings and "invests" his work in establishing a home.
22 We have proposed that taxation on both wages and invest-
23 ments in homes should be given the same three year exemp-
24 tion as the industry receives. Despite the obvious justice
25 of this proposal and even "sympathy" from Government
26 spokesmen, nothing has been done to put it into effect.

27 This is a particularized form of taxation relief
28 that we submit is entirely practicable and surely if the
29 Government can forego the taxes accruing from a new mine
30 development for three years, then certainly they can



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1 forego taxes from workers whose future is as "risky" as
2 the industry and who is investing not only dollars and
3 cents, but his life, in the community.

4 In relation to the need for tax relief among wage
5 earners, may we say that we have studied the submission
6 of the United Electrical, Radio and Machine Workers and
7 in general subscribe to the position advanced by them.
8 We do not here intend to recite a repetitious statement
9 with regard to the general need for tax relief for wage
10 earners. The need, we submit, is quite evident.

11 Every convention of our Union in Canada has
12 passed resolutions supporting the idea and demand for tax
13 relief for the wage earners. Our most recent convention
14 in 1961 in September in Edmonton called for additional
15 exemptions to the amount of \$2,000 for wives and \$500 for
16 children. This takes into account only the income tax,
17 and does not take into account the pyramiding of a multi-
18 plicity of taxes both hidden and unhidden with which the
19 wage earner has to contend. Certainly we can find no
20 evidence of "preferential" treatment at this level. We
21 believe that the brief presented by the United Electrical
22 Workers Union quite ably supports the case for ending
23 discriminatory taxation practices against wage earners.

24 REGULATIONS ON PENSION VESTING

25 We respectfully draw to the attention of the
26 Commission the history and practice around this regulation.
27 In essence what the regulation says is that in the event
28 that a company putting money into a pension fund claims
29 income tax exemptions for monies so allotted, then there
30 must be vested in the participant, after 20 years' service



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1 and age 50, an interest that cannot be withdrawn or with-
2 held regardless of the circumstances of his or her leaving
3 the employ of the company before pension age.

4 This we regard as an absolutely correct principle
5 and a minimum requirement, because failure to apply the
6 regulation simply means that the company in question is
7 setting up pension funds from public funds by claiming
8 tax exemptions.

9 It first came to the attention of the Union in 1954
10 that this regulation existed and that it was not in fact
11 being applied in the case of some companies with whom we
12 had bargaining relations and who had pension funds. The
13 remarkable thing about this is that in spite of repeated
14 efforts by the Union to have the regulation applied
15 through governmental action since that time we have not
16 been successful. In fact at one juncture in 1959 we dis-
17 covered to our dismay that the government of the day had
18 failed to print the regulation in a new handbook of regu-
19 lations. We urge upon the Commission a careful study of
20 this matter and a strong recommendation that the provi-
21 sions of the regulation be applied.

22 In Ontario the introduction of the new pension
23 legislation may seem to have beclouded the issue to some
24 degree but one salient point remains clear: in a wide
25 number of cases huge trust funds set up to cover pension
26 benefits have been set up with a large portion of public
27 funds. In some cases these trust funds are now being
28 "frozen" and new plans introduced. We believe that it is
29 a betrayal of the public interest that these funds should
30 now, having escaped the vesting provisions remain for



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1 private administration by the boards of trustees set up
2 by the corporations. We respectfully propose to the
3 Commission that there be a recommendation for governmental
4 assurances that these funds in trust will now vest in the
5 participants for whom they were established.

6 CONCLUSIONS

7 This, Gentlemen, concludes our submission. We
8 have attempted, and let us say with all modesty that we
9 are not and do not profess to be experts in the wide and
10 complex field of taxation, to lay before you in a critical
11 and straightforward manner the collective thinking of our
12 organization on matters regarding taxation policy and
13 practice.

14 We cannot emphasize too strongly that in our view
15 the preferential treatment accorded the industry with
16 which we are associated has gone beyond the bounds of
17 sensible economic planning and we urge that the Commission
18 utilize its unique position to recommend policies and
19 programs more in line with the national needs of our
20 people and country, and a lessening of the grip of foreign
21 investment in our metal industry.

22 We believe we can close on the note sounded in the
23 poem by Rudyard Kipling, "Daughter of the Snows", when he
24 wrote of Canada: "Daughter I am in my Mother's house

25 But Mistress in my own."

26 We thank the Commission for the opportunity to
27 have made this presentation and again we commend it for
28 its choice of site.

29 All of which is Respectfully Submitted,

30 INTERNATIONAL UNION OF MINE, MILL
 AND SMELTER WORKERS (CANADA) -

July 22/63

ROYAL COMMISSION

ON

TAXATION

HEARINGS

HELD AT

YELLOWKNIFE

N. W. T.

VOLUME No.:

DATE:

31A JULY 24, 1961
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TAXATION AND THE NORTH

Submitted by

MUNICIPAL DISTRICT OF YELLOWKNIFE

and

YELLOWKNIFE BOARD OF TRADE



PRESENTATION TO ROYAL COMMISSION ON TAXATION

1. This brief is prepared and is being presented by the Yellowknife Board of Trade, an affiliate of the Canadian Chamber of Commerce, whose function it is to assist businesses and individuals to carry on in the north in relative security comparable as nearly as conditions permit to businesses in the same field "outside", and is assisted by the Council of the Municipal District of Yellowknife with a view to improving business and living conditions in the north.

2. In subsequent paragraphs of this submission we will demonstrate:

(a) That incentives for business and individuals in the form of tax concessions such as increased exemptions for income tax purposes for both individuals and businesses are just as necessary for a healthy business climate in the north as are the incentives provided by the Federal Government to induce its servants to share in the development of the north:

(b) that business in the north has a strong case for relief from the impact of the manufacturers' sales tax and that those few businesses in the north now collecting this tax should be exempted from this duty:

(c) that a tax exemption period of the same number of years as that which applies to the mines would stimulate a number of secondary industries,



1 (c) and aid in setting up new economic horizons
2 for northern residents:

3 (d) that as a further inducement for families
4 to keep children in high schools and on the road to
5 higher education (be this academic or vocational),
6 dependent exemptions should be increased to include
7 dependents attending school even though the age
8 limit used by the tax division arbitrarily has
9 been passed.

10 3. The series of schedules which form a part
11 of this submission were calculated from the
12 Personnel Manual of the Department of Northern
13 Affairs, pages 102-1 to 102-28, authorized by
14 T.B. 535000 of June 20th, 1958, as amended. They
15 are not submitted to prove that the government
16 employee in the north is necessarily overpaid, but
17 they ARE submitted to demonstrate that at least
18 one department of government recognizes officially
19 that it is more expensive to live in the north
20 than it is to live in the "outside" --- and to
21 most northerners "outside" means almost anywhere
22 south of the 60th parallel, although there are
23 settlements well inside that arbitrary boundary
24 in which government employees are deemed to qualify
25 for the isolation, food, supplementary and fuel
26 and utilities allowances. We feel that in such
27 places non-civil servants in these communities should
28 also be permitted extra income tax exemptions.

29 4. The extra income tax exemptions are mentioned
30 simply because this appears to be one field which



1 4. relief is in the gift of the senior government,
2 though there are also others which will be
3 mentioned later. Equalization of treatment as
4 between a government employee and a private
5 individual could not be realized by the payment of
6 subsidies or such allowances to northerners. The
7 commission will, we hope, agree that payment of
8 such subsidies would create impossible situations.

9 5. Scale of the exemptions should be doubled for
10 residents of Yellowknife, for example, where as is
11 illustrated at the bottom of Schedule 1 the "other
12 citizen" winds up with a comparative purchasing
13 power with his brother in Edmonton of 59% ---
14 and at the same time the Edmonton resident is
15 privileged to enjoy such modern amenities as television,
16 a Trans-Canada Highway, a subsidized rail line,
17 subsidized dairy products and lighter clothing.

18 6. While these calculations are made for
19 Yellowknife on the basis outlined above, non-civil
20 servant residents of other even more isolated
21 communities face even greater inequities as compared
22 to the government employee.

23 7. Such tax relief incentives, by freeing business
24 operators and their employees from much of the
25 burden of taxation, would enable businesses to cut
26 expenses and thus lower living costs, and by freeing
27 customers from the same burden, would increase the
28 supply of money available for the purchase of goods.

29 8. Very considerable concern has been expressed
30 in the north recently on the imposition of the sales



8. tax of 11% on the manufacturer's price for building material. This extra impost almost halted the construction of five new houses this year in Yellowknife, which are being built by Giant Yellowknife Mines for employees who will live in town. Three thousand dollars was added to the total cost for these houses, and it has been stated if the company had known of the extra cost, the housing programme would have been abandoned for this year. However, orders had been forwarded and the contract awarded for the work which was then permitted to proceed.

9. This tax on building materials was one which drew immediate public attention here where construction costs are high in any case. The writer obtained plans of an Edmonton house which had been purchased there for \$15,000 on a landscaped lot with a semi-finished basement. Lowest price for this house given in Yellowknife was \$20,500 with an unfinished basement and the lot supplied by the home owner.

10. So far as is known there are only two firms in the N.W.T. now collecting and paying manufacturer's sales tax, the local Coca Cola plant and the local newspaper's job printing department, but distributors, wholesalers and retailers buying from "outside" manufacturers pay this 11% as does anyone else in the same business in Canada anywhere.

11. We contend that in view of Canada's growing interest in the development of the north ---



11. and in view of the high costs involved by the north's isolation --- its severe winters - firms doing business north of the 60th parallel, or in similar situations "outside", should be exempted from payment of this tax. Creation of an exemption along geographical lines should be no more difficult than exemptions for specific industries such as are now in effect (e.g. hospitals and some government departments). The two firms who now must collect and remit this tax should be excused from this duty except for such goods as they may sell to the "outside".

12. In connection with the latter firms who must compete with printers and bottlers from "outside," the Commission will realize these firms must calculate their tax on a product which costs more to produce, and that the imposition of 11% on this is a further blow to local business development.

13. If the north is to develop to the full extent of its bountiful resources, it must be obvious that some secondary industries should be developed.

These should deal with processing of the products of the mines - of the fur industry and the fisheries - of the timber along the Mackenzie. The opening of such industries is predicated naturally on the hope that this industry will make a profit --- and the making of a profit on a new industry is frequently long delayed. It is submitted, therefore, that secondary industries be granted a tax exemption period similar to that given to the mines,



13. to enable them to hasten the day when they may become firmly established, create employment and return dividends to investors. An example, which comes readily to mind is a fish processing plant --- or a fur garment industry.

14. Full employment is the aim of each section of the economy, and coupled with this is the realization that this ideal will be most difficult to achieve without full education. The people of Yellowknife feel that income tax concession made to parents to keep their children in school would present an admittedly partial solution to the unemployment problem. Opportunities for high school in both academic and vocational streams are supplied in the north, but, alas, there is still the problem of the drop-out. To some extent this could be overcome among those groups of people in the north who pay income taxes, if children attending school could remain longer on the list as "exemptions".

15. There are scores of cliches uttered by the politicians and echoed in the press on the "New Frontier" on Canada's place in the north -- and how she should develop and encourage her people to live here and "unlock this vast treasure house". Idealistically this sounds wonderful. However, there is one factor which will do more to ensure northern development than any other --- and that is a monetary reward. The government, without direct subsidization, can make the earning of that reward much more simple and the north that much more



1 15. simple and the north that much more easily
2 developed by a few tax exemptions, the cost of
3 which will be more than compensated for in increased
4 gross national production.
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Schedule 1

COMPARISON OF INCOME TAXES AND NET PURCHASING

POWER OF YELLOWKNIFE RESIDENT TO EDMONTON RESIDENT.
(RESIDENT IS MARRIED WITH TWO DEPENDENTS UNDER 16
YEARS OF AGE)

	<u>Edmonton</u>	<u>Yellowknife</u>	
		<u>Civil</u> <u>Servant</u>	<u>Other</u> <u>Citizen</u>
Salary - average (per Schedule 2)	4,750.00	4,750.00	4,750.00
Northern Allowance		1,460.00	
Extra salary normally paid to northern employees to offset high cost of living, but not shown separately.			1,460.00
Housing subsidy (Schedule 2)		1,593.00	
Hypothetical gross income	4,750.00	7,803.00	6,210.00
Less non-taxable "subsidy"		1,593.00	
Income for tax purposes	4,750.00	6,210.00	6,210.00
Personal exemptions	2,600.00	2,600.00	2,600.00
Taxable income	2,150.00	3,610.00	3,610.00
Taxes there-on	320.00	644.20	644.20

/Contd..



1 SCHEDULE 1 Contd...

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CALCULATION OF PURCHASING POWER OF SALARIES AFTER
ADJUSTMENTS FOR HIGHER COST OF LIVING AND EXTRA TAXES

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		Yellowknife	
		Civil	Other
	Edmonton	Servant	Citizen

9

10	Deemed income-above	4,750.00	7,803.00	6,210.00
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11 Deduct:

12 Extra cost of living
13 as paid and subsidized
14 by Federal Government
Northern Allowance

1,460.00	1,460.00
----------	----------

15 Housing subsidy

1,593.00	1,593.00
----------	----------

16 Extra Income Taxes

324.20	324.20
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3,377.20	3,377.20
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18

19	Net purchasing power	4,750.00	4,425.80	2,832.80
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21 Percentages comparing
22 purchasing powers

100.0%	93.2%	59.6%
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23 Percentages of taxes
24 to purchasing power

6.7%	14.6%	22.7%
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Schedule 2

CALCULATION OF SUBSIDY GRANTED BY FEDERAL GOVERNMENT
TO CIVIL SERVANTS RESIDING IN YELLOWKNIFE

	<u>INCOMES</u>				<u>AVERAGE</u>
Basic Salaries - say.	<u>4,000.00</u>	<u>4,500.00</u>	<u>5,000.00</u>	<u>5,500.00</u>	<u>4,750.00</u>
Rentals charged by Federal Government to a maximum of 20% of basic salary	800.00	900.00	1,000.00	1,100.00	
Utilities charged by Federal Government minimum of 5% of basic salary to a maximum of 250.00.	<u>200.00</u>	<u>225.00</u>	<u>250.00</u>	<u>250.00</u>	
Rent paid to Federal Government by employees provided with living quarters in Yellowknife	<u>1,000.00</u>	<u>1,125.00</u>	<u>1,250.00</u>	<u>1,350.00</u>	
Cost of equivalent housing in Yellowknife for married persons not so subsidised (Schedule 3)	<u>2,774.00</u>	<u>2,774.00</u>	<u>2,774.00</u>	<u>2,774.00</u>	
Subsidy granted tax free	<u>1,774.00</u>	<u>1,649.00</u>	<u>1,524.00</u>	<u>1,424.00</u>	<u>1,593.00</u>



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Schedule 3

CALCULATION OF COST OF MAINTAINING YELLOWKNIFE

DWELLING EQUIVALENT TO HOUSING PROVIDED CIVIL SERVANTS

To rent equivalent home furnished in Yellowknife prior to utilities charges	12 months @ 150.00	1,800.00
Water	12 months @ 9.20	110.00
Lights	12 months @ 20.00	240.00
Hot water	12 months @ 7.00	84.00
Heating	12 months @ 45.00	<u>540.00</u>
Total cost of housing		<u>2,774.00</u>



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Schedule 4

SUMMARY OF CONCESSIONS MADE TO GOVERNMENT EMPLOYEES

LIVING IN YELLOWKNIFE, N.W.T. TO OFFSET HIGHER COST OF LIVING

Northern Allowance, including isolation, food and supplementary allowance, paid to employee and taxable 1,460.00

Housing subsidy granted to Federal Government employee in Yellowknife (Schedule 2) 1,593.00

Tax saving on housing subsidy (Taxable income (Schedule 1)) 3,610.00

Housing subsidy - if taxable would be taxed as follows:-

on first	390.00 at 19%	74.00	
on remaining	<u>1,203.00</u> at 22%	<u>265.00</u>	339.00
	<u>1,593.00</u>		

Average extra allowance given to Government employees living in Yellowknife, to allow them the same standard of living as is enjoyed by other Canadians in non-isolated, or average cost of living areas 3,392.00

Other allowances granted include transportation on holidays

For a family of four:

3 return tickets to Edmonton by air	336.00	
Paid by employee	<u>85.00</u>	<u>251.00</u>
		<u>3,643.00</u>



Schedule 5

INCOME EARNED BY AN UNMARRIED FEDERAL GOVERNMENT

EMPLOYEE TO OFFSET EXTRA COST OF LIVING IN YELLOWKNIFE

Minimum amounts paid to
single employees includ-
ing isolation, food, fuel
and supplementary allowances 1,098.00

or: they receive a tax free
"subsidy" as follows:-

Paid allowances (Taxable) 696.00

Non-taxable "subsidy"

Food provided to a
maximum of 135.00/month 1,620.00

Room provided valued at
approx. 40.00/month 480.00

2,100.00

Deduct cost to employee

77.00 per month or
Maximum "subsidy" 1,176.00

Tax saving on non-taxable
"subsidy" estimated at
approximately 20% 235.00

2,107.00

Total maximum subsidy
granted single employee
working for Government
in Yellowknife to compensate
for higher cost of living 2,107.00

Extra taxes on minimum allowances
based on earnings of 4,000.00
would be say 20% of 1,098.00, or: 220.00



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DRS. CASE & POWELL

Yellowknife,

N.W.T.

June 12, 1963

The Royal Commission on Taxation,
Ottawa, Ontario.

Dear Sirs:

I note that you are considering holding sittings in Yellowknife and other places in the N.W.T. and I would like to urge you to do so. I feel quite strongly that tax incentives are essential to the opening of the N.W.T. and other northern areas by private citizens and companies to help offset the very high costs of living and working in these areas.

I would like to draw your attention to the Crown's subsidies to civil servants in the north. I would suggest that tax incentives in lieu of these subsidies would put private citizens and civil servants on a more equal basis.

For instance note that civil servants receive the following:

(1) Northern Allowance which I believe is taxed of \$1000+.

(2) Housing subsidies untaxed of \$3000+.

I calculate this as follows:-

(a) The Crown rents its employees a furnished, heated, maintained, serviced housing unit for \$1000+ per annum.

(b) To provide myself with an equivalent housing unit, equivalent services and furnishings has cost me \$4000+ per annum.

(c) My experience is reasonably typical of those few private citizens able to afford a housing unit equivalent to crown housing.

(d) The difference is \$3000 per annum in untaxed subsidy. i.e. After paying tax at even 25% a private citizen would have to earn \$4000 more than a civil servant doing the same work to afford equivalent housing.

(3) Transportation allowances which are again not taxed for.

(a) Moving in and out of the north.

(b) Return trips to outside points (including family) at regular intervals for leave or holiday.

(c) Return trips to outside points in case

(cont.)



The Royal Commission on Taxation,
June 12, 1963.

of sickness not capable of being
handled in the north (family included).

I would estimate total transportation allowances
at \$450 per civil servant per annum as a minimum.

A private citizen paying income tax at a rate
of 25% would have to make \$600 to provide himself with the
equivalent in necessary transportation.

The Government of Canada apparently considers
these enormous subsidies necessary to attract civil
servants to the north and keep them here for a reasonable
length of time in adequate physical and mental health.
These subsidies are above and on top of the regular
salaries of the various civil servants.

In short therefore, I estimate that a private
citizen paying income tax at 25% would have to earn
\$5600 more per annum than a civil servant doing equivalent
work to live as well as the civil servant.

I submit to you, sirs, that my estimates and
calculations are correct and valid for this area and that
the difference becomes larger as you go further north or
the income tax rate rises.

I further suggest to you, sirs, that the Govern-
ment of Canada should seek ways of supplying all northern
citizens with equivalent advantages. The present policy
has created two groups of Northerners; the "haves" (civil
servants) and the "have nots" (the great majority of the
rest).

I submit to you that the provision of an
appropriately large measure of tax relief to all northern-
ers is the only possible method of providing economic
equality to all citizens of the north. This would, of
course, be followed by the elimination of various taxed
and untaxed northern allowances received by the "have" or
civil service group.

I further suggest to you, sirs, that companies
functioning in the N.W.T. face, to some extent, the same
costs of keeping employees that the Government of Canada
faces. Also companies face the very high costs of trans-
portation, heating, electricity, and so on in the north.
Because of these costs, I would urge you to consider
recommending a large degree of tax relief to companies
in this area to encourage mining and other companies to
open the north.

Yours sincerely,

(sgd) (1) George R.B. Case, M.D.
(sgd) (2) Lloyd G. Powell, M.D.

c.c. (1) Hon. Arthur Laing
(2) Mayor Ted Horton
(3) Mr. E. Rheame, M.P.



1 Citizen's Committee of Norman Wells
2 Brief in support of Increased Personal
3 Income Tax Exemptions for Residents
4 of the Northwest Territories

5 A productive and self-sufficient Northland
6 is essential for a sound Canadian Economy and full
7 economic growth of our country.

8 Development of the North is essential for
9 full national unity and security as well as for
10 economic reasons.

11 This development is dependent upon attract-
12 ing to the Northwest Territories both primary and
13 secondary industries.

14 To promote industrial expansion and
15 Northern development certain factors must be
16 optimized, or at very least, made considerably more
17 favorable than at present.

18 Of prime importance is the need to make
19 conditions such that the right kind of people will
20 be attracted to the North. If Northern industry is to
21 prove profitable its employees must be of high
22 calibre - of sufficient ability and qualifications to
23 hold down comparable positions and achieve acceptable
24 standards in similar occupations or industries in
25 any other areas of this country.

26 The historic and accepted prime inducement
27 to achieve this aim is financial reward.

28 We respectfully submit that the burden of
29 the necessary inducement to provide the right calibre
30 of personnel for both government and industry in the
31 North should not rest entirely on the shoulders of



1 industry. The government needs to assess its
2 responsibilities, which in reality are the re-
3 sponsibilities of the nation as a whole, and the
4 role it must be prepared to play to foster the
5 full development of this country Canada.

6 The noted British Philosopher, Arnold
7 Toynbee, states a "golden mean" is necessary in a
8 challenge-response relationship.

9 The citizen's Committee of Norman Wells
10 believe one small part of the government's role
11 and a step toward achieving this "Golden Mean"
12 for the North lies in personal income tax concessions.

13 The people and industries at present in
14 the North are playing their parts by working under
15 adverse physical and economic conditions.

16 Their efforts should be reciprocated so
17 that the proper spirit of national development and
18 true nationhood may be achieved.

19 Taxation should not be a deterrent to those
20 pioneering Northern Development - but unfortunately,
21 under existing conditions it is.

22 It is an irrefutable fact that employees
23 or self-employed in the North are laboring under a
24 variety of socio-economic handicaps. Through tax
25 concessions, the Government of Canada can ameliorate
26 to some significant extent the effects of those
27 handicaps.

28 While, undoubtedly the peoples of the North,
29 despite a high per capita rate of Government expenditure,
30 derive less direct personal benefit from Government



1 spending of the personal tax dollar, it is
2 recognized that the principle of income taxation
3 is necessarily based on ability to pay, not on
4 benefits received from the tax.

5 Therefore, we respectfully submit that
6 the high costs of the necessities for life in the
7 Northwest Territories curtails the ability of the
8 peoples of that area to pay income tax. This, to
9 the extent that of such tax on an equal basis with
10 the peoples of other areas of Canada represents
11 a penalty. This penalty is detrimental to the
12 development of the underdeveloped North.

13 Adding to the burden imposed by the
14 higher prices which must be paid for the necessities
15 are other expenses peculiar to this remote area.

- 16 1. For their children to obtain an
17 education beyond secondary school
18 level, it is necessary for the
19 majority of the Territories'
20 families to send them a con-
21 siderable distance and board
22 them out throughout the school
23 year.

24 The tax tables make no allowance,
25 either generally or specifically
26 for this situation.

- 27 2. There are a number of persons
28 employed in the North who through
29 lack of housing facilities are
30 required to live apart from their



- 1 2. families and consequently maintain
2 two residences.

3 No recognition is given to these
4 circumstances in the tax structure.

- 5 3. The quantity and special types of
6 clothing required to live and work
7 in the North are extensive. So
8 much so that they are as much an
9 essential cost of work performance
10 as any allowable costs of opera-
11 tions recognized by the tax department
12 rulings as they apply to corporations.

13 Nevertheless, no exemption is
14 granted to the individual on that
15 score.

- 16 4. While dollars cannot be put on
17 hardships or privation, the peoples
18 of the North do not have access yet
19 to the many benefits and advantages
20 enjoyed by their Southern Canadian
21 Counterparts. National Parks,
22 Trans-Canada Highway, subsidized
23 rail lines, television and radio
24 corporations, communication systems
25 are not available and do not con-
26 tribute to the advancement, educat-
27 ion and enjoyment of the peoples of
28 Territories. Even the subsidized
29 dairy products, because of high
30 transportation costs, become luxuries



1 4. in the North country, and are
2 practically excluded from the
3 diet.

4 The Citizen's Committee of Norman Wells
5 therefore, asks that the Government of Canada
6 consider an increased personal Exemption for
7 each taxpayer resident within the Northwest
8 Territories, and dependent child thereof.
9 This exemption to be granted for a period
10 of years during which the Territories might be
11 considered to be in their pioneering, or develop-
12 ment state.

13 We submit that such a concession would not
14 be unique nor unconstitutional, but would bear some
15 resemblance in essence to the income tax exemption
16 granted coal mines during the first five years
17 of operation.

18 We contend that such an exemption would be
19 equivalent to the exploration or development costs
20 incurred by certain industries which have been
21 ruled as allowable expenses for taxation purposes.

22 In this way the Government would be making
23 a real contribution towards the fulfilment of
24 Canada's destiny as a truly great nation by giving
25 relief to those who have pioneered the development
26 of the North thus far, and at the same time assist-
27 ing industries to attract the necessary qualified
28 personnel into Northern operations.

29 The Citizen's Committee of Norman Wells
30 respectfully advances the recommendation that it



1 is a fairer principle to tax spending rather
2 than income, and asks that the Government of
3 Canada consider this submission in the spirit of
4 that principle as well as in the light of what
5 has been earlier stated herein.

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10 Signed this twenty-fourth
11 day of June, in the year
12 of our Lord Nineteen
13 hundred and sixty-three.

14 (Signed) E. Monaghan
15 Chairman

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ANGUS, STONEHOUSE & CO. LTD.
TORONTO, ONTARIO

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4 TAXATION IN NORTHERN ECONOMIC DEVELOPMENT
5

6
7 A Brief

8 Presented To The

9
10 Royal Commission on Taxation

11 Appointed by O/C 1962 - 1334 Sept. 25, 1962
12

13 Submitted By The

14 Commissioner of the Northwest Territories
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22 Yellowknife, N.W.T., July 23, 1963
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1 TAXATION IN NORTHERN ECONOMIC DEVELOPMENT

2 Introduction

3 In November, 1955, the then Commissioner of the
4 Northwest Territories submitted a Brief to the Royal
5 Commission on "Canada's Economic Prospects" which dealt
6 with the future economic development of the Territories.
7 This Brief went into some detail in discussing factors
8 pertaining to northern development; it also advanced a
9 number of useful recommendations concerning the ways and
10 means of encouraging an early expansion of the area's
11 economy. A paragraph from this Brief will explain con-
12 cisely and yet rather precisely why I am appearing before
13 this Royal Commission on Taxation today. The paragraph
14 reads as follows:

15 "We must, however, be fully alive to the importance
16 of our northern frontier and of the resources - many
17 known and many as yet unknown - that lie within it.
18 It is not necessary, nor, it is submitted, is it at
19 all desirable, for us to wait inertly for economic
20 forces alone to set the terms and the pace of our
21 action. Entirely in line with sound economic pro-
22 gress, a great deal can be done by national policy to
23 hasten and extend our northward development. In a
24 region as vast as the Canadian north, with problems
25 of distance and climate, developments cannot occur
26 with the speed they do in smaller countries or in the
27 southern part of Canada. If we are going to want and
28 to need the resources of our northland in ten or
29 twenty years, the time to begin the work of getting
30 them is now."



1 That is the end of the paragraph. "If we are
2 going to want and to need the resources of our northland
3 in ten or twenty years, the time to begin the work of
4 getting them is now". That is why successive federal
5 governments, since 1955, have taken a strong interest in
6 northern development. Indeed, they have gone further than
7 merely to show interest. They have taken the concept of
8 northern development and have turned it into a national
9 objective of primary importance.

10 Most of the recommendations advanced in the
11 N.W.T. Commissioners' 1955 Brief to the Gordon Royal
12 Commission have been put into effect. Above all else at
13 that time, the matter which seemed to need the most
14 serious attention was the problem of transportation. Our
15 1955 Brief urged that a railway be built from railhead in
16 Alberta to the south shore of Great Slave Lake. That
17 railroad is now under construction. It recommended that
18 private companies be encouraged to extend their scheduled
19 commercial air services to northern communities. You
20 will know from your trip to Whitehorse and here, that
21 Canadian Pacific Airlines, Pacific Western Airlines and
22 other airline companies have been accepting that challenge.
23 The 1955 Brief also recommended the adoption of a roads
24 program for the north. It stressed the concept of resource
25 and area development roads and thus paved the way for the
26 network of northern highways which has been evolving dur-
27 ing the past several years. The northern arm of the
28 Mackenzie Highway, which now places Yellowknife in ground
29 transportation contact with southern parts of Canada is a
30 result of one of the Brief's specific recommendations.



1 All of us who represent the Territory are en-
2 thusiastically appreciative of these federal activities.
3 There is, however, one field in which the authorities do
4 not yet seem to have given our 1955 Brief as careful
5 attention as we thought it deserved. That field is tax-
6 ation. The north is still an area plagued by high costs
7 caused by its relative remoteness from centres of popu-
8 lation and industrial and consumer production. Much has
9 been learned about the area's resource endowment during
10 the past several years. We have been shown some spectacu-
11 lar indications of its potential mineral and petroleum
12 wealth. Unfortunately, corporate inexperience in working
13 in the area and consequent uncertainty about the capital
14 cost hurdles of commencing production have thus far been
15 deterrents to actual, tangible resource development.

16 In 1955, the Commissioner's Brief said this on
17 the subject of taxation, and I quote:

18 "The Royal Commission might also wish to direct its
19 attention to the effect of present federal tax policies
20 upon the economic development of the Northwest Territories.
21 In addition to the burden of high operating costs on ex-
22 isting mines there are important other problems inherent
23 in bringing a new mine into production in northern Canada.
24 Most of these involve not only higher costs but a sub-
25 stantially increased time until the production stage can
26 be reached. They derive, in general, from the short
27 construction season and great transportation problems.
28 Their effect is to make the three-year period of tax
29 exemption for new mines in the north much less benefit
30



1 than it is in the southern parts of Canada closer to
2 established transportation systems. The Commission might
3 therefore wish to consider whether, in the interest of
4 the development of our northern areas, there would not be
5 ground for some provision by which new mines in northern
6 Canada might be allowed a longer period of tax exemption
7 which would give them, in practice, a more genuinely
8 equal opportunity than now exists with companies operating
9 further south."

10 End of quotation.

11 The point here is this. Federal authorities have
12 shown repeatedly, in various ways, that they wish to draw
13 the northern territories more firmly into the Canadian
14 fabric. They have set an acceleration of the pace of
15 northern economic development as one of their important
16 objectives. But they seemingly have not yet come to
17 realize that the north is constantly being penalized rela-
18 tive to the rest of the country by virtue of its geo-
19 graphical remoteness from sources of supply and of markets.
20 They consequently do not yet seem to adequately appreciate
21 that the north would not be placed at an advantage if it
22 were allowed a more liberal taxation policy. Instead, a
23 relaxed taxation climate would lift some of the weight of
24 this area's chronic economic handicap, and would allow
25 it to become less laggard compared to other parts of the
26 country. A more generous federal tax attitude would allow
27 it to compete on a more nearly equal basis for the
28 development capital which it so desperately needs.

29 It is the purpose of this submission to your
30



1 Commission to examine the practical effects of taxation,
2 and to suggest changes that could be made to taxation
3 policy that should result in the attraction of increased
4 quantities of private capital to the region. No attempt
5 will be made to discuss any northern problems that do not
6 bear closely on the question of northern economic progress.
7 However, the Brief is based throughout on the premise
8 that an increase in private capital investment in the
9 area is needed if significant economic expansion is to
10 occur within the next decade.

11 CURRENT STATUS OF RESOURCE INDUSTRIES

12 The part of Canada lying north of the 60th
13 parallel, that is the part contained in the two northern
14 territories, together comprise approximately 40 per cent
15 of the land area of the country. In this whole vast area,
16 the best prospects of economic improvement are considered
17 to be through the development and exploitation of natural
18 resources, particularly of petroleum resources and min-
19 erals. The high risk nature of these industries and the
20 huge investments required before there can be any return
21 of investment both dictate that private industry rather
22 than government should carry out the actual exploration
23 and the development of these resources.

24 The north, however, must compete for the ex-
25 ploration and development dollar with other regions of
26 Canada, and with the rest of the world. Private capital
27 will come forward in adequate quantities only when the
28 chances of making a profit appear to be commensurate with
29 the risks that are being taken. The terms under which
30



1 oil and gas and mineral rights are leased have been made
2 as favourable as possible, and are kept under constant
3 study to ensure that they accord with the needs of the
4 industry. Government has also attempted to provide civil
5 administration and a variety of ancillary services to
6 create the kind of climate that will be conducive to
7 development. However, other factors affect to a marked
8 degree the attractiveness of investing in exploration for
9 northern non-renewable resources, and of these factors
10 one of the most significant is taxation policy.

11 Experience gained from other regions of Canada
12 and the world indicates that for any given area there
13 must be a minimum investment in exploration before oil,
14 gas or minerals will be found in volumes sufficient to
15 make it economically attractive to install production and
16 transportation facilities. For northern oil and gas, one
17 of our University Economists has estimated that an ex-
18 penditure of at least \$250 million will have to go into
19 exploration and drilling for there to be even a chance of
20 finding a field of the required size. Table 1, attached
21 as an appendix to this Brief, shows that exploration
22 expenditures by the petroleum industry have increased
23 gradually during the past ten-year period. However, the
24 total spent in the north by the end of 1961 amounted to
25 only \$54 million. Thus, in the two northern territories
26 combined, with their 40 per cent of Canada's land area
27 and with their very large sedimentary areas suitable for
28 petroleum accumulation, the cumulative expenditure to date
29 is only about half as large as the \$100 million annual
30



1 expenditure rate in Alberta alone.

2 In addition, while expenditures in the north are
3 up, exploratory activities since 1960 have actually
4 declined. Footage drilling has gone down from 102,756
5 feet in 1960 to 52,701 feet in 1962; permit holdings on
6 the mainland have dropped from a high of approximately
7 73 million acres in 1960 to approximately 46 million
8 acres today; wells drilled in 1960 were 32 in number and
9 there were only 8 in 1962; seismic crew months diminished
10 from 55 in 1961 to 45 last year; and Crown income from
11 the disposition of lands to oil companies declined from
12 approximately \$8 million in the fiscal year 1958-59 to
13 less than \$1 million in 1962.

14 Statistical data on mineral exploration in the
15 north are not as detailed but they reveal much the same
16 picture. Prospecting expenditures declined from over
17 \$3 million in 1956 to less than \$2 million in 1961 (com-
18 pare these \$3 million and \$2 million expenditures with
19 \$14 million currently being spent on mineral exploration
20 in Quebec). Claims staked in the Northwest Territories
21 declined from approximately 9,000 in 1956 to 4,000 in
22 1962. However, in this instance, the Yukon fortunately
23 showed an offsetting gain, with mineral claims increasing
24 from 1,600 in 1956 to 3,000 in 1962. Table 2 in the
25 appendix, shows the production side of mining. Here also
26 the trend is downwards, causing grave concern to all of
27 us endeavouring to foster northern economic development.
28 Mineral production in recent years has declined from an
29 approximately \$42 million maximum value in 1954, to
30



1 approximately \$31 million in 1962. The number of opera-
2 ting mines has also diminished. There were 8 active mines
3 in 1958 and today there are only 6. Reserves are close
4 to exhaustion at 2 of the continuing mines so that unless
5 new mines open up very soon, there may be only four mines
6 still active by 1968.

7 These data show that current investments in
8 northern exploration and in northern productive activity
9 are far below the levels required to produce significant
10 results within the foreseeable future. With such slow
11 progress, it is distinctly possible that alternative
12 sources and types of fuels and minerals will be sought
13 after and found and developed elsewhere. This eventuality,
14 in turn, easily could render many of the north's potenti-
15 ally valuable minerals redundant for years to come, per-
16 haps for a century or longer. This could be true also of
17 its oil. Millions of tons of coal still siting in less
18 remote areas to be exploited provide a precedent for this
19 kind of happening. These unused coal deposits offer a
20 classic example of changing use patterns.

21 Already we may be on the doorstep of a somewhat
22 parallel development in the north. The Crest iron ore
23 deposit in the Yukon is a spectacular mineral find, of
24 tremendous proportions. At first, it was thought that
25 the size and richness of this deposit would command im-
26 mediate development to meet the needs of the burgeoning
27 iron ore market in Asia. Already, within the space of one
28 year a further alternative source of rich iron has been
29 found in Australia.



1 On the oil side, there is a somewhat similar
2 situation involving the Athabasca Oil Sands of Alberta
3 which are nearing commercial development. All of us are
4 aware that Canada does not have access to unlimited quan-
5 tities of petroleum development capital. It now seems
6 inevitable that much of the capital that could otherwise
7 have become directed towards northern petroleum develop-
8 ment will before long drain instead towards the mid-Canada
9 tar sands reserves.

10 It is our firm conviction that positive steps
11 must be taken now to attract more private capital towards
12 the northern portion of Canada. These steps should have
13 as their objective; first, a widening of the source and
14 amounts of funds available for northern exploration; and
15 second, a reduction wherever possible of factors which
16 are having a negative or prohibitive influence upon the
17 area's development. It is my view as Commissioner, and
18 it is also the view of the Northwest Territories Council
19 which I am here to represent, that modification of the
20 Income Tax Provisions, together with certain changes in
21 the mining and petroleum regulations (which I will not go
22 into here) offer the best prospects of achieving results
23 within a reasonable time. The following sections of this
24 submission are therefore devoted to an examination of the
25 Income Tax Provisions in greater detail.

26 INCOME TAX PROVISIONS

27 Exploration Costs

28 Section 83A of the Income Tax Act stipulates that
29 a company within a specified class (which is made up



1 essentially of mining, oil and gas producing, refining
2 and metal fabricating companies) may deduct exploration
3 costs from income for the purpose of determining taxable
4 income. This may be done even if part of the income is
5 obtained from other activities such as pipelining, ship-
6 ping, etc. Also, any company or individual which derives
7 income from oil and gas or mining may deduct exploration
8 costs from such income when calculating tax liability but
9 may not deduct exploration costs from income derived from
10 other sources.

11 The deduction of business expenses from income
12 is normally an acceptable principle since income tax is
13 considered to be a charge on net income or profit, not on
14 gross income. Yet, for exploration expenses, the present
15 provisions of the tax act confine this principle to a
16 relatively restricted class of companies. In practice,
17 companies outside the class cannot afford to undertake
18 exploration with its associated high risks and costs.

19 Let me explain this another way. A grocer, let
20 us say, can buy and operate a hotel. He can deduct any
21 loss incurred in the operation of his hotel from his
22 profits in the grocery business. However, if he invests
23 his money in an oil well instead of in a hotel, and if
24 the oil well is a failure, he cannot deduct his losses
25 from his grocery profits.

26 The point that is noteworthy is this: it is
27 difficult if not impossible for any successful company
28 or individual - except for companies within the specified
29 class - to invest in exploration for non-renewable
30



1 resources. The denial of this investment opportunity to
2 such people restricts the capital flow into exploration
3 activities. In the north in particular, less exploration
4 means less possibility of development. The vicious circle
5 is complete when the slow pace of development is in turn
6 a deterrent to companies which might otherwise become
7 interested in investing in the area.

8 The job to be done in the north is staggeringly
9 large. Canadian mining and petroleum companies are not
10 generating and cannot hope to generate sufficient capital
11 from their own resources to tackle it entirely alone.
12 Yet current tax policy persists in effectively excluding
13 some other potentially available sources of capital.
14 Many of us look upon this exclusion as a major factor
15 mitigating against an accelerated pace of northern ex-
16 ploration.

17 By way of contrast to our Canadian policy, your
18 Commission may be interested to know that Australia, which
19 I mentioned as a competitor for iron markets a moment ago,
20 is adopting an approach markedly different from our own.
21 Australia allows any company or individual full charge-
22 off of all exploration costs, and it imposes no restrict-
23 ion on the carry-forward or source of the income.
24 Australia, of course, needs to attract capital into the
25 resource exploitation sectors of its economy, just as we
26 do in our north. It seems to me, however, that it may be
27 showing considerably more foresight than we are in en-
28 couraging the investment of funds where they are most
29 badly needed.



1 Still on the subject of exploration, there is
2 another point which I would like to commend to your
3 attention. The restriction which prohibits Canadian
4 individuals and companies from charging-off exploration
5 costs against income irrespective of source stifles
6 competition whether it does so intentionally or otherwise.
7 It allows the large international companies to enjoy an
8 advantage by default, because they are able to generate
9 a great deal or all of their financial requirements
10 beyond Canada's national boundaries. The end result, in
11 the petroleum industry in particular, is that independent
12 Canadian companies have been finding it virtually impos-
13 sible to engage in large-scale operations in the north
14 independently.

15 I have already mentioned that companies and
16 individuals outside of a specified class are barred from
17 deducting exploration costs from income for income tax
18 purposes. The Income Tax Act, however, permits these same
19 companies to charge-off expenditures incurred in producing
20 mineral or petroleum activities. Such companies which
21 wish to diversify their portfolios by participating in
22 petroleum development accordingly do their participating
23 in southern Canada, in areas where reserves have already
24 proved capable of production, not in the north where
25 petroleum activities are still at the exploratory stage.
26 The north's loss in this instance is also the industry's
27 loss. The concentration of capital inflows into the
28 safer, producing end of the industry has an inflationary
29 tendency upon prices. This, in turn, reduces returns on
30



1 investment, frequently to the point that it has a detri-
2 mental effect upon exploration. Today in Alberta, for
3 example, most Crown reserve sales see oil properties going
4 for between 3 per cent and 6 per cent return on invest-
5 ment, a level of return too low to be conducive to much
6 diversion of income into risk exploration. Many informed
7 individuals feel that the prairie lag in exploration has
8 already reached serious proportions.

9 Tax Exemption

10 Under Section 83 (5) of the Income Tax Act,
11 income derived from the operation of a mine during the
12 period of 36 months, commencing with the day on which the
13 mine came into production, is exempt from taxation.

14 This three-year exemption is, of course, appli-
15 cable to mines located anywhere in Canada. Consequently,
16 it does nothing to further northern development. Looked
17 at from a mining company point of view, however, the
18 income tax question tends to be relatively more important
19 for northern undertakings than for mining operations
20 carried out elsewhere. This is purely a matter of geo-
21 graphy. Costs of operation are higher in the north than
22 elsewhere and profit margins are correspondingly lower.
23 Taking capital costs, for example, it has been estimated
24 that to build a plant in a northern environment costs
25 about 40% more than does the building of a comparable
26 plant in a large eastern centre. Operating costs, in-
27 cluding insurance costs, are also proportionately higher
28 in the north. Thus, the level of taxation may be here the
29 critical factor in determining whether or not a mine can
30 be brought into production.



1 At the present time, small mines are the most
2 typical kind in the north. They prosper during the first
3 three years of operation when they are totally exempt
4 from the payment of taxes; and they may continue to earn
5 profits for a further 2 - 3 years while still able to take
6 advantage of capital cost allowances. After five or six
7 years, however, when they are exposed to the full impact
8 of taxation, they frequently cease to be profitable and
9 go out of business. In practice, the mines which have
10 flourished have either been gold mines which have the
11 provisions of the Emergency Gold Mining Assistance Act to
12 fall back on, or are mines whose ores are of such high
13 grade or high value that they would be profitable under
14 any conceivable tax circumstances.

15 The north badly needs the economic infusion which
16 large, long-lived mining operations can give. These larger
17 mines tend in general to be based upon very large ore
18 bodies, and here the ore is commonly more or less marginal
19 in value. Exploration expenses are accordingly heavy:
20 much costly work is involved, for one thing, in outlining
21 the size and grade of the ore body. Later, there are very
22 heavy capital costs in installing and bringing the mine
23 into production. Not uncommonly, extensive underground
24 workings and a concentrating mill to bring the ores up
25 to a marketable grade are essential components of these
26 costs. Large mines thus require very heavy outlays before
27 any ore is taken from the ground or placed on the market;
28 and hence they require substantial amounts of financial
29 backing in order to get into production. With these mines
30



1 it is not the initial tax exempt period which is of
2 primary concern. Rather, it is the amount oweable in
3 taxes in ensuing years. These later tax costs must be
4 fairly carefully worked out before financing is sought,
5 and before the decision is taken whether or not to place
6 the property in production.

7 The north has not yet had its commensurate share
8 of large, producing mines. In fact, the total number of
9 mines brought into production here has been disappoint-
10 ingly small. Furthermore, with only one or two exceptions,
11 the mines which have come into being have given little
12 stimulus to secondary industry, either locally or nation-
13 ally. On the positive side, however, is Cominco's recent
14 start at preparing its Pine Point mine for production.
15 Upon its completion, this mine will be the largest ever
16 established in the north. It will also mark the first
17 occasion in this region on which a base metal operation
18 could stand without the support of high value by-products.

19 The go-ahead given Pine Point Mines Ltd. creates
20 the clear impression that a break-through point may be at
21 hand, that it may henceforth be possible for other large
22 capital and labour intensive mines to become established
23 in the north provided there is a modest amount of govern-
24 mental encouragement. The present time would therefore
25 seem to be most opportune for re-examining the Income Tax
26 Act and Regulations with a view to modifying them in ways
27 which would encourage a higher level of mining production
28 in the north.

29 Depletion Allowance

30 One-third of the net annual income derived from



1 mining or oil and gas producing operations is exempt from
2 tax, as a depletion allowance, under Section 1201 of the
3 Income Tax Regulations. However, this allowance does not
4 apply to that portion of the gross income from which
5 exploration costs have been deducted.

6 If a mining or petroleum company is to stay in
7 business, it must explore for new reserves as its old ore,
8 or oil is produced and sold. Yet, by incurring explora-
9 tion costs, it is in effect reducing its depletion allow-
10 ance proportionately. If it should happen to find a
11 sizeable oil field or mine it is almost irresistibly
12 tempted to cease or reduce exploration. As a result, the
13 oil industry reserves to production ratio, in the prairie
14 provinces, is rapidly deteriorating at the present time.
15 The failure of the industry to compensate for this decline
16 in reserves, by failing to increase exploration expendi-
17 tures, is a short-sighted circumstance that should not be
18 lightly dismissed.

19 In the north, this effect cannot be demonstrated
20 so clearly. However, current low levels of exploration
21 expenditure are almost certainly attributable in part to
22 the influence of the method used in Canada for calculating
23 depletion allowance. By way of contrast, the success of
24 the U.S. provisions for oil which allow depletion at the
25 rate of 27½ per cent of gross income but not to exceed
26 50 per cent of net, is quite clear - it has created a
27 strong incentive to invest in this industry, both at
28 home and abroad, with substantial benefits for the whole
29
30



1 economy.*

2 Other Aspects

3 As already stated, funds for northern exploration
4 may be developed only by a restricted class of companies
5 and individuals.

6 Canadian companies seeking new resources are
7 therefore at a disadvantage vis-a-vis their competitors
8 from the U.S. The latter, operating in Canada through a
9 branch, may deduct exploration costs from other income
10 for the purpose of U.S. income tax determination and they
11 do not lose any benefit derived from the U.S. depletion
12 allowance where it is applicable. In effect, therefore,
13 the U.S. company is spending cheaper dollars than its
14 Canadian counterpart, which by contrast is hampered in
15 its efforts to develop the funds necessary for a success-
16 ful exploration program. One is therefore very tempted
17 to suggest that our own federal tax policies - or at
18 least these policies in relation to those in force in the
19 U.S. - are contributing towards the disquieting fact that
20 Canadian extractive industries are already about 70 per
21 cent under United States control.

22 SOLUTIONS

23 In total, it is questionable whether the pro-
24 visions of the Income Tax Act, to which reference has
25 been made in this Brief, have been stimulating northern

26 *

27 The depletion allowance has been under attack in the
28 United States ever since its inception but its opponents
29 have never been successful in changing its application
30 and probably will not be as long as it continues to pro-
duce demonstrable benefits for the U.S. economy.



1 resource development to the desired degree; and there is
2 room for concern on the other hand that these provisions
3 may be causing some unexpected side effects which may be,
4 on balance, detrimental.

5 To conclude this submission, I therefore wish to
6 suggest several income tax amendments which I hope your
7 Commission may find worthy of being drawn to the federal
8 government's attention.

9 My own interest in this subject quite naturally
10 lies primarily in the degree to which tax measures can
11 aid economic progress in the Territories. However, many
12 of our territorial developmental problems occur also in
13 the more remote northern portions of the larger provinces.
14 It is therefore reasonably possible that the ind of pro-
15 posals which I have in mind could actually have a more
16 general application thereby enabling the provinces to
17 benefit from them also.

18 The proposed solutions are as follows:

- 19 1. As an incentive to petroleum exploration, amend
20 Section 83A of the Income Tax Act, to allow any
21 company or individual to charge-off exploration
22 expenses against all income irrespective of
23 source.

24 I would also welcome seeing this same amendment
25 made applicable to mining, although the need for
26 it in mining exploration is not quite as pressing.
27 One of the considerations here, of course, is
28 the considerable difference between the structure
29 of the petroleum industry and of the mining
30



1 industry in Canada and of the related difference
2 in the capabilities of Canadian companies for
3 raising exploration capital domestically.

- 4 2. As an incentive to mineral production, amend
5 Section 83(5) of the Income Tax Act to extend
6 the tax-free period for mines beyond the 36
7 months currently allowed.

8 Petitions from companies now operating in the
9 north have suggested that the tax-free period
10 should be extended from 3 years to 5 years.

11 However, an alternative possibility has occurred
12 to us which would seem worth considering. Under
13 this alternative, 4 - 5 years at a 50 per cent
14 exemption rate would be added to the present
15 3-year exemption. This latter proposal might
16 well provide a stronger incentive for the more
17 permanent kind of mine (i.e., the kind with the
18 greater significance for settlement in the north
19 and for northern employment); and it conceivably
20 could prove more beneficial also as regards tax
21 revenue accruing to the Crown.

- 22 3. As a possible further incentive to production,
23 aimed primarily at petroleum but perhaps appli-
24 cable also to mining, modify Section 1201 of the
25 Income Tax Regulations, so that the deduction
26 now allowed on net income or profits under this
27 section would be applied to gross income instead.
28 It would be necessary, of course, to fix some
29 new ceiling for the revised depletion allowance.
30



1 It has been our thought that the deduction might
2 be based upon 25 per cent of gross income up to
3 50 per cent of net, a rate that has been sug-
4 gested to us by some of the petroleum operators,
5 and which is close to the rate prevailing in the
6 United States. However, we are not necessarily
7 wedded to this figure if close examination shows
8 that some other rate would be better.

9 That is the end of my submission.

10 To close, I cannot do better than reiterate the
11 final words of the Commissioner's 1955 Brief to the Royal
12 Commission on Canada's Economic Prospects. The sentiment
13 expressed then is, if anything, even more valid today:

14 "...both the members of the Council and we of
15 the Administration have the sense that we are
16 dealing not merely with the future of the North-
17 west Territories but with the progress of Canada
18 as a whole. In the first seventy-five years
19 after Confederation, a prime object of national
20 policy was the linking together of our different
21 regions from the Atlantic to the Pacific. Canada
22 has now, as a nation, become increasingly con-
23 scious of its third dimension. This country is
24 nearly as vast from north to south as it is from
25 east to west. As we in Canada develop our north-
26 ern areas and bind them, by our daily comings
27 and going, into the more settled areas of the
28 south, I submit that we shall not only be
29 insuring the realization of new wealth in a not
30



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-21-

1 very distant tomorrow. We shall also be writing
2 the second of the major chapters in our develop-
3 ment as a nation."
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STATISTICAL APPENDIX

Table 1. Northern Exploration Expenditures, Oil and Gas

<u>Year</u>	<u>Annual</u>	<u>Cumulative</u>
1952	\$ 156,879	\$ 5,001,084
1953	1,717,317	6,718,401
1954	1,309,957	8,028,358
1955	2,048,951	10,077,098
1956	2,629,789	12,707,098
1957	3,609,573	16,316,671
1958	5,752,539	22,069,210
1959	8,219,478	30,288,688
1960	11,430,057	41,718,745
1961	12,839,655	54,558,400

Source: 1952-1960-"Statistical Report On Oil and Gas Activities 1920-1960", Department of Northern Affairs and National Resources, Table 1, page 1.

1961 - Resources Division, N.A.B., Department of Northern Affairs and National Resources.



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Table 1(a) Possible Oil Reserves of Northern Canada
(billion barrels)

N.W. Territories Mainland	13.3
Yukon	<u>3.2</u>
Total Mainland	16.5
Arctic Islands	<u>33.2</u>
Total Reserves	49.7

Source: "Economics of Oil and Gas Development in Northern Canada", G. David Quirin, Table 3, page 12.



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Table 1(b) Drilling for Petroleum in Northern Canada,
1952 - 1962

(Number of Wells Completed)

Year Completed	Yukon	N.W.T. Mainland Exploratory Development	Arctic Islands Exploratory	Grand Total
1952	--	16	--	16
1953	--	9	--	9
1954	--	6	--	6
1955	--	10	--	10
1956	--	4	4	8
1957	--	4	--	4
1958	1	8	--	9
1959	--	8	--	8
1960	2	30	--	32
1961	--	15	--	15
1962	--	7	1	8
Totals	3	117	4	125

Source: 1952-1960 - "Economics of Oil and Gas Development in Northern Canada", G. David Quirin, Table 1, Page 8,
1961 - Monthly Oil and Gas Report, Department of Northern Affairs and National Resources, Resources Division, December, 1961, page 8.
1962 - Ibid, January 1963, page 4.



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Table 2. Northwest Territories and Yukon Territory
Value of Mineral Production 1954 to 1962

	<u>N.W.T.</u>	<u>Yukon</u>	<u>Total</u>	<u>Percent of Canadian Production</u>
1952 (pre- liminary)	17,701,145	13,316,782	31,017,927	1.1
1951	18,145,162	12,750,304	30,895,466	1.2
1950	27,135,087	13,330,198	40,465,285	1.6
1959	25,874,496	12,592,378	38,466,874	1.6
1958	24,895,390	12,310,756	37,206,146	1.8
1957	21,400,615	14,111,798	35,512,413	1.6
1956	22,157,935	15,656,434	37,814,369	1.8
1955	25,597,821	14,724,750	40,322,571	2.2
1954	26,414,000	16,588,664	43,002,664	2.9

Source: D.B.S.



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Table 3. Freight Cost Comparisons
Yellowknife and Timmins Gold Producers

	Means of Transport	Rate per ton	Total Cost per ton
<u>Mining, Machinery & Equipment (1)</u>			
<u>(a) To Yellowknife</u>			
Totonto-Edmonton	Rail freight	\$80.80	
Edmonton-Waterways	Rail freight	\$21.20	
Waterways-Yellowknife	Barge	\$50.00- \$60.00	\$152.00- \$162.00
<u>(b) To Timmins</u>			
Toronto-Timmins	Rail freight		\$26.30
<u>Foodstuffs (2)</u>			
<u>(a) To Yellowknife</u>			
Edmonton-McMurray	Rail freight	\$21.20-\$25.80	
McMurray-Yellowknife	Barge	\$50.00	\$7120-75.30
Edmonton-Yellowknife	Truck		\$75.00 (approx.)
<u>(b) To Timmins</u>			
Toronto-Timmins	Rail freight		\$25.30-32.80
Toronto-Timmins	Truck		\$25.00-35.00
<u>Building Materials (3)</u>			
<u>(a) To Yellowknife</u>			
Edmonton-McMurray	Rail freight	\$12.80-21.20	
McMurray-Yellowknife	Barge	\$50.00- \$75.00	\$62.30-96.20
<u>(b) To Timmins</u>			
Toronto-Timmins	Rail freight		\$15.20- \$26.30



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NOTES - Table 4.

- (1) Most mining machinery and equipment moves under Class 45 rail rates and Class 5 water rates. However, water rate is escalated with weight of shipment because of difficulty of handling heavier equipment. This accounts for range in water freight rate per ton.
- (2) Refers mainly to tinned and preserved items not requiring special handling. These fall under Class 45 and 55 rail rates and Class 5 water rates. Estimate for trucking based on average rate of 7.5¢ per mile and estimated distance of 1,000 miles in case of Yellowknife, and 6¢ - 8¢ and 440 miles in case of Timmins.
- (3) Refers to building materials moving under Class 27 (Canadian lumber) and Class 45 rail rates and Class 5 (most items) and 3 (loose lumber) water rates.
- (4) To compute rail freight, use was made of carload rates for minimum shipments ranging in weight from 24,000 lbs. to 36,000 lbs., depending on the commodity.

Source: C.N.R. and N.T. Company Tariffs.

HEARINGS

VOLUME No.:



ANGUS STONEHOUSE & CO. LTD.
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BRIEF ON CANADIAN TAXATION

TO

THE ROYAL COMMISSION ON TAXATION

FROM

THE NEWFOUNDLAND BOARD OF TRADE

JULY 5th, 1963



ANGUS, STONEHOUSE & CO. LTD.
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BRIEF ON CANADIAN TAXATION
TO
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JULY 5th, 1963.

C O N T E N T S

INTRODUCTION

1. The Newfoundland Board of Trade
2. Prime Concern
3. Presentation

SUMMARY OF CONCLUSIONS & RECOMMENDATIONS

4. Income Tax Act
 - (a) Private Companies
 - (b) Personal Corporations
 - (c) Taxation of Dividends
 - (d) Disallowance of Business Expenditure
 - (e) Rulings by Taxation Division of Department of National Revenue
 - (f) Personal Income Tax Rates
 - (g) Irrevocable Gifts to Minors - Sec. 22
5. Federal Sales Tax Act
6. Estate Tax Act
 - (a) Annuities and other Interests
 - (b) Pension and Death Benefits
 - (c) Jointly held Insurance Policies
 - (d) Deduction of Fees, Legal and Executors
 - (e) Personal Exemptions
 - (f) Certificate of Discharge
 - (g) Minority Shareholders
 - (h) Optional Valuation Date

DETAIL

7. Income Tax Act
 - (a) Private Companies
 - (b) Taxation of Dividends
 - (c) Rulings by Taxation Division of Department of National Revenue
8. Federal Sales Tax
9. Estate Tax Act
 - (a) Annuities and other Interests
 - (b) Personal Exemptions
 - (c) Optional Valuation Date
10. Irrevocable Gifts to Minors - Sec. 22

ECONOMIC CONSIDERATIONS NEWFOUNDLAND

11. Income Tax
12. Corporation Tax

CONCLUSION



1 INTRODUCTION

2 1. We are pleased to submit the above mentioned
3 Brief and to advise that the Newfoundland Board of
4 Trade, Incorporated in 1909, now represents
5 approximately eight hundred (800) leaders in
6 business, in the professions and in other walks of
7 life mainly throughout Newfoundland. Three quarters
8 of this membership comes from the Capital City of
9 St. John's, the financial core of the Province.

10 2. The prime concern then of the Newfoundland Board
11 of Trade is that the economic welfare of St. John's
12 and of Newfoundland in particular be in keeping
13 with that of Canada as a whole and of Canadian
14 progress in general.

15 3. To this end we summarize the burden of our
16 Brief, appreciative of your interest, and in
17 anticipation of your favourable consideration.

18 SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS

19 4. Income Tax Act.

20 (a) Private Companies find themselves at a competi-
21 tive disadvantage and in an invidious position
22 in relation to public corporations in the event
23 that a controlling shareholder dies, forcing
24 sale of less marketable shares to offset estate
25 taxes.

26 Recommended that the Income Tax Act be amended
27 to provide for a distribution of undistributed
28 income at a special rate of tax, say of 15%,
29 for private companies on the death of the
30 controlling shareholder.

(b) Personal Corporations - It restricts initiative to classify as a personal corporation a company incorporated by and under the control of an individual who contracts for, erects and, through this means, operates a commercial building, rather than merely acquiring existing real property.

Recommended that the words "active commercial business" - See Section 68 (1) (c) - be defined to include cases where an individual contracts for, erects and operates a commercial building incorporating a company to be the vehicle for operation.

At present there is no relief to shareholders of personal corporations in years in which such corporations incur losses.

Recommended that losses of personal corporations be deemed to be applicable to shareholders in the same way as income.

(c) Taxation of Dividends - Taxation of the Income of Corporations and of Distributions of such income to shareholders

results, under the Act, in double imposition upon the corporation - firstly, on its income; secondly on that of the shareholders when it is distributed.

Recommended that dividend payments be allowed as a deduction in determining the taxable income of the paying corporation and that the present 20% tax credit on dividend income be eliminated.



Recommended further as an alternative that corporation income and distributions thereof by means of dividend be taxed as follows:

- (i) The corporation to pay tax at a standard rate on its taxable income;
- (ii) The corporation to deduct from the gross amount of dividends payable an amount equivalent to tax at the standard rate;
- (iii) The shareholder to include in his income the gross amount of dividends and to treat the amount deducted from the dividend by the company as a payment on account of his tax.

(d) Disallowance of Business Expenditures - Certain Business Expenditures, though not giving rise to any permanently valuable assets, are not deductible in arriving at taxable income nor are they eligible for capital cost allowance. Such situations usually arise as the result of the use, in section 12 (1) (b) of the Income Tax Act, of the word capital; of the courts' interpretation of that word in that particular context; and of the limitations placed on the types of expenditure which give rise to property subject to capital cost allowance.

Recommended that the Income Tax Act be so amended as to render all business expenditures other than those made in respect of the acquisition of land, goodwill, loans, advances or securities either deductible as expenses or subject to capital cost allowance as their



1 nature dictates.

2 (e) Rulings by Taxation Division of Department of
3 National Revenue -

4 Interpretations of sections of the Act are often
5 / Subject to doubt, inaccuracy and misunderstanding
6 thus penalizing the businessman who thereby is
7 prohibited from assessing the probably tax
8 implications of a particular business transaction.

9 Recommended that the Taxation Division be
10 empowered to issue rulings on the basis of data
11 submitted by the taxpayer, such rulings to have
12 the same effect as an assessment, provided, of
13 course, that the transaction is carried out in
14 strict conformity with the data presented.

15 (f) Personal Income Tax Rates - Sec. 79B - High
16 Personal Rates must necessarily be paid by

17 individuals when, for relatively short periods,
18 their income is high; yet the present retirement
19 savings provisions for deferring income tax do
20 not give sufficient relief for those individuals.

21 Recommended that the maximum deduction in
22 respect of premiums permitted under Section 79B
23 be increased to 15% of the taxpayer's earned
24 income.

25 (g) Irrevocable Gifts to Minors - Sec. 22 - Unwar-

26 ranted burden is placed on the Trustee responsi-
27 ble for making returns in respect of income
28 derived from additional capital placed in trust
29 but which must be separated from that derived
30 from the original trust.



1 Recommended that Section 22 Subsection (1) be
2 revoked in its entirety or, in the alternative,
3 where the trust referred to is an irrevocable
4 trust and the Trustee is a person dealing at
5 arm's length with the donor that the income be
6 considered the income of the donee or the Trust,
7 and taxed accordingly.

8 5. FEDERAL SALES TAX ACT

9 Exemptions - "blanket certificates" applicable to the
10 shipment and supply of all sizes of ropes to be used
11 specifically in commercial fishing are no longer
12 acceptable to the Sales Tax division in respect of
13 ropes in excess of $1\frac{1}{2}$ " circumference with the result
14 that either a disproportionate amount of accounting
15 falls on those least equipped to cope with it or else
16 there is a tendency to disregard recoverability -
17 the added cost of accounting in the first place and
18 of prosecuting the fishery, in the second, being self-
19 evident and economically inhibiting.

20 Recommended that manufacturers and other licensed
21 wholesalers be permitted to continue their former
22 practice of accepting "blanket" certificates of
23 exemption from Sales Tax.

24 6. ESTATE TAX ACT

25 (a) Annuities or other interests - Section 3 (1) (j)

26 (b) Pension and Death Benefits - Section 3 (1) (k)

27 Section 15. In view of legislation currently
28 in existence,

29 Recommended that a change be effected so that
30 if:



(i) the death benefit is a lump sum that the amount be included in computing the aggregate net value of the property passing;

(ii) if the death benefit be a pension or annuity, the payments of which are spread over a number of years or for a guaranteed term that there be no commutation and that the monies paid to the recipient be treated as ordinary income and subject to Income Tax and not form part of the Estate and be subject to Estate taxes;

(iii) if there is an option which exists by which the recipient may declare as to whether he or she wishes to take either a lump sum payment or an annuity payable for life or guaranteed term that either (i) or (ii) mentioned immediately above will apply depending on that persons election. Section 15 (1)(a) of the Estate Tax Act provides for the spreading of tax over six years provided both the following conditions appear (1) that the tax is in respect of an income right, annuity, etc., and (2) that no property coming out of the actual estate under the control of the Executor passes to the beneficiary of the income right, annuity, etc.. It is submitted that only in rare cases will this occur.

Recommended further that Section 15 (1) (a) of the Estate Tax Act be changed to remove the necessity of qualifying under the second condition.



1 N.B. Taking advantage of Section (1) (a) would
2 be unnecessary where the Will of the deceased
3 provides for the payment of the tax from the
4 capital of the Estate.

5 (c) Jointly Held Insurance Policies - Section 3(1)(m)

6 There appears to be no valid reason for treating
7 life insurance differently from any other
8 property owned jointly or in common yet the
9 insurance on the life of the deceased that is
10 owned by the deceased jointly or in common with
11 another person is included in full in the tax-
12 able estate.

13 Recommended that Section 3 (1)(m) be amended
14 to ensure that the proceeds of life insurance
15 would be included in taxable estate only to the
16 extent of the proportionate interest of the
17 deceased in the policy.

18 (d) Deduction of Fees, Legal and Executors - Section
19 5 (1) (b)

20 These are necessary charges just as much as are
21 funeral expenses and should be included provided
22 they are reasonable.

23 Recommended that an amendment be made to the
24 aforesaid section so that solicitor's charges
25 and fees of the Executors be deducted in comput-
26 ing the aggregate net value of the property
27 passing at death.

28 (e) Personal Exemptions - Section 7 (1)(a)(b) & (c)

29 It would appear inequitable and inadmissible
30 that a female be penalized by not qualifying for



1 \$20,000. exemption unless her husband be infirm
2 and there be a child under 21.

3 Recommended that the deductible personal
4 exemptions be increased from \$40,000. to a basic
5 \$60,000. with additional \$10,000. for each
6 dependent including surviving spouse, minor child
7 and person who qualifies for exemption under
8 Section 26 (1)(a), (11) (c) of the Income Tax
9 Act.

10 Recommended further that an exemption be
11 allowed for a child over 21 years of age where
12 that child is in full attendance in a univer-
13 sity.

14 (f) Certificate of Discharge - Section 13

15 In the present Estate Tax Act there is no pro-
16 vision for a certificate of discharge as there
17 was in the old Succession Duty Act.

18 Recommended that a certificate of discharge
19 be provided for under the Estate Tax Act so that
20 an Executor can get a clearance before the four
21 year period has expired.

22 (g) Minority Shareholders - Section 28 (1)

23 The market value of the shares should be the
24 criterion for determining value particularly
25 where the minority shareholder took no active
26 part in the management of the corporation but
27 merely held shares in it.

28 Recommended that Section 28 (1) should be
29 revoked in its entirety.
30



(h) Optional Valuation Date - Section 58 (1)(s).

No estate can realize any values on the date of death and capital should not be confiscated where economic fluctuations cause deminutions of values after death but prior to time when realization is possible.

Recommended that the law be amended to provide for an alternative valuation date and that a valuation be allowed at any time within one year of the date of death, it being understood that;

(1) if the securities are sold within one year then the net conversion price should be the price submitted for Estate Tax purposes;

(11) If the securities are not sold then the listed price of the securities as at the date of death should be the quotation taken.

DETAIL

7. Income Tax Act

(a) Private Companies - re paragraph 4 (a) above;

The death of the controlling shareholder of a private company (one with 50 shareholders or less) often places that corporation at a disadvantage with respect to its competing public Corporation. When a shareholder of a public corporation dies, even a shareholder having a substantial estate, his holdings in the public corporation are usually readily marketable and can be converted into cash without any disruption of the operations of the public company, for the purpose of paying estate taxes.



1 (ii) However, when the controlling shareholder of a
2 private company dies, apart from the problem of
3 valuation of the shares, the problem of convert-
4 ing part of his estate into cash arises in order
5 to pay the estate taxes. This often places a
6 burden on the estate of the deceased controlling
7 shareholder in that to raise cash to pay the es-
8 tate taxes a forced sale of the shares is often
9 necessary, for a forced distribution by ordinary
10 dividend would attract tax at the graduated
11 rates.

12 (iii) The private company caught in this position is,
13 therefore, placed by the demands of estate tax
14 at a competitive disadvantage with respect to
15 public corporations operating in the same
16 industry in that a forced sale of its assets or
17 of the controlling interest may become necessary.

18 (iv) Our suggested Amendment does not, of course,
19 affect the rate of estate tax and would only have
20 a minor effect on the total amount collected
21 under the Income Tax Act. It would have an
22 important effect in the Province of Newfoundland
23 where, apart from the Pulp and Paper companies,
24 the Public Utilities and the Mining Industry, the
25 great part of the commerce of the Province is
26 carried on by private companies.

27 (v) Since Confederation with Canada on April 1, 1949,
28 the burden of estate taxes and requirements of
29 the estate tax Act are progressively being felt
30 by more and more Newfoundland private companies



1 and the amendment suggested above would tend to
2 enable these companies to continue to operate
3 after the death of the controlling shareholder
4 in the traditions established over a long
5 commercial history.

6 (b) Taxation of Dividends - Re paragraph 4(a) above
7 Taxation of the Income of Corporations and of
8 Distribution of such Income to Shareholders

9 (i) Under the provisions of the present Act,
10 the income of corporations is taxed twice
11 firstly, as income of the corporation and
12 secondly, as income of the shareholders
13 when it is distributed. This basis is
14 faulty in that it does not give recognition
15 to the fact that the income of the corpora-
16 tion is earned for the ultimate benefit of
17 the shareholders and that, if due attention
18 is to be paid to the taxpayers' ability to
19 pay, the total tax ultimately payable on
20 income coming into the hands of a share-
21 holder should be calculated at a rate
22 appropriate to the amount of that share-
23 holder's total income.

24 (ii) The "dividend credit" affords some relief
25 from this double taxation but is poor conso-
26 lation to a shareholder in the lower income
27 group if he realizes that the amount avail-
28 able for distribution out of the corpora-
29 tion's profit has already been reduced by
30 approximately 50% by reason of the tax



payable by the corporation.

(iii) The ultimate effect of this system of taxation is haphazard and, in many cases, can be oppressive if the corporation distributes its income by what used to be considered the normal means, namely, the payment of dividends.

(iv) In order to avoid the effects of this basis of taxation, and taking advantage of various means of distribution provided either intentionally or unintentionally in the Act, taxpayers have become accustomed to converting what would otherwise be taxable income into tax-free distributions by means of various forms of unnatural manipulations. It is rightly recognized that a taxpayer is entitled so to arrange his affairs as to attract the least possible tax liability, but it now appears that, with regard to the taxation of corporation income, the degree of so-called sophistication of the taxpayer is becoming more important than the actual taxing provisions of the Act.

(v) Attempts have been made to remedy this situation by amendments to the Act, but they have not been successful because the whole system has an illogical basis.

(vi) Either of the procedures we recommend in paragraph 4(c) above would result in payment of tax on dividends at rates appropriate to the shareholder's total income and in tax being ultimately borne by the corporation in respect



of retained income only.

(c) Rulings by Taxation Division of Dept., of National Revenue - Re. Para. 4(v) above

(i) Even with the best available professional advice it is frequently impossible, because of doubts as to the correct interpretation of particular sections of the Income Tax Act, for a businessman to foresee the probable tax implications of a particular business transaction.

(ii) For these reasons, decisions are sometimes difficult to make and much more speculative than would be the case if the tax consequences were known with a greater degree of certainty. Accordingly, and in the interest of stability, our recommendation empowering the Taxation Division to make in effect an assessment is urged.

8. Federal Sales Tax Act - Re Para. 5 above.

(i) Under the regulations of the Sales Tax Division of the Department of National Revenue, manufacturers and licensed wholesalers are required to collect a tax of 11% on the price of all ropes larger than 24 thread when shipped other than directly to a bona-fide fisherman. The exemption from tax on these ropes is only allowed if and when a certificate is obtained from the end-user, that the rope is to be used in commercial fishing.

(ii) Smaller ropes, lines and twines and certain other items required in the fisheries can be sold



of retained income only.

(c) Rulings by Taxation Division of Dept., of National Revenue - Re. Para. 4(v) above

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(ii) For these reasons, decisions are sometimes difficult to make and much more speculative than would be the case if the tax consequences were known with a greater degree of certainty. Accordingly, and in the interest of stability, our recommendation empowering the Taxation Division to make in effect an assessment is urged.

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(ii) Smaller ropes, lines and twines and certain other items required in the fisheries can be sold



1 free of tax to merchants, dealers and fishermen
2 under "blanket" certificates from such purchasers,
3 the certificates being renewable every three
4 months.

5 (iii) In the past, the Sales Tax Division approved of
6 the practice of shipping all ropes, whatever size
7 to any merchant or dealer Sales Tax exempt when
8 it could be reasonably assumed by the supplier
9 that the rope was to be sold for commercial
10 fishing.

11 (iv) As outlined by the Sales Tax Auditor, under the
12 new directive "blanket" certificates for ropes
13 in excess of $1\frac{1}{2}$ " circumference are not accept-
14 able and the tax must be charged to the dealer
15 or merchant at time of shipment. The dealer or
16 merchant is expected, if the rope is sold to a
17 bona-fide fisherman, to deduct the tax from his
18 selling price, obtain a certificate from the
19 fisherman and make application, directly to the
20 Department, for a refund of the tax he has
21 allowed the fisherman.

22 (v) Because of the paper work and time involved, it
23 can be assumed that the merchant or dealer will,
24 except in very few cases, be inclined to disre-
25 gard the recoverability of the tax, thus driving
26 up the cost of prosecuting the fishery.

27 (vi) Inasmuch as perhaps 90% of the ropes of all
28 sizes which are shipped to recognized fish
29 merchants and dealers are used in commercial
30



1 fishing, we feel our recommendation in respect
2 of reinstituting the "blanket certificate"
3 procedure is valid, practical and in the
4 economic interest of all concerned.

5 9. Estate Tax Act - Re Para. 6 above.

6 (a) Annuities and Other Interests - As the present
7 arrangements can very often mean a hardship for
8 the widow or other member of the deceased's
9 family, we feel that a more equitable arrange-
10 ment, such as that which we have recommended can
11 be made for the recipient.

12 (b) Personal Exemptions - re Para. 6(e) above -
13 Section 7(1)(a) provides a basic exemption of
14 \$40,000. for each person with an additional
15 \$20,000. exemption allowed to a male survived
16 by a spouse. The female's estate may also de-
17 rive the benefit of the traditional \$20,000.
18 exemption providing her husband is infirm and
19 there is a child under 21. Additional exemptions
20 of \$10,000. per minor child is given to any
21 person who qualifies for the additional \$20,000.
22 exemption above mentioned. If any person dies
23 leaving no spouse, but leaving minor children
24 the exemption is \$40,000. plus \$15,000. for each
25 minor child. In our opinion there should be no
26 reason why the female of the species should be
27 penalized if she has not an infirm husband and
28 her estate should receive equal benegit. The
29 recommendation is that the formula be changed
30



1 from the basic \$40,000. (plus additional quali-
2 fied exemptions) to a straight \$60,000. per per-
3 son with additional exemptions of \$10,000. per
4 surviving spouse, minor child, and person who
5 qualify as an exemptions under Section 26(1)(a),
6 2(c) of the Income Tax Act. Re further recom-
7 mendation, 6(e) above - If this be adopted a
8 probable hardship would be prevented and would
9 also bring the Estate Tax Act in line with
10 Section 26(1)(a), 2(c) of the Income Tax Act.

11 (c) Optional Valuation Date - See 58(1)(5) - Re
12 paragraph 4(b) above.

13 The capital of an estate should not be confis-
14 cated when economic conditions bring about
15 diminution in values after death but before
16 realization is possible. The recent drastic
17 drop in stock market prices points up the
18 necessity of optional valuation date provisions.
19 It seems clear that no estate can realize any
20 values on the date of death. It is not difficult
21 to visualize instances where values are substan-
22 tially diminished between the date of death,
23 when the liability for tax is fixed, and the
24 date when the assets can be realized in order to
25 pay the tax. We feel it well to follow other
26 jurisdictions which have adopted an optional
27 alternative valuation date.

28 10. Irrevocable Gifts to Minors - Sec. 22 re Para 4(g)
29 above.

30 In most cases, any gifts made to minors are for the



specific purpose of setting aside a fund for education or such other purpose as an alternative to insurance. If the amounts involved in the gift is under \$1,000. (in most cases) per annum, the tax on the income would be negligible; if the amount of the gift is of a higher income-producing nature, then the gift tax on the gift should be sufficient remuneration to the Department of Revenue. The adoption of the change would facilitate the reporting of income on the part of the donor and should also encourage investment, contributing thereby to the National investment economy. In other cases, there are trusts already set up, usually due to the Will of a deceased person where the funds are to be held and kept invested until a certain age, whereby there is nothing to prevent a potential donor adding to the trust for the eventual benefit of the infant. Under the present wording of the Act, the income derived from additional capital placed in the trust would have to be separated from the income of the original trust, thus requiring two tax returns - one on behalf of the beneficiary or the trust itself and the other on behalf of the donor. This places an unwarranted burden on the Trustee who is responsible for making the returns.

We suggest that there is a certain amount of ambiguity in the phrasing of Section 22 as it is now drafted. The heading of the Section immediately following the section number is "Transfers to Minors" and subsection (1) deals specifically with that topic. However,



1 subsection 2 deals with any revocable trust created,
2 whether dealing with minors or not. The Board
3 recommends that Section 22 deal with revocable trusts
4 and that irrevocable trusts be the exception to the
5 general tenure of the said section.

6 ECONOMIC CONSIDERATIONS NEWFOUNDLAND

7 11. Income Tax

8 (a) We feel that consideration should be given
9 to reducing the income tax rates for
10 people resident in Newfoundland. The cost
11 of living in Newfoundland is considerably
12 higher than it is on the Mainland and in
13 consequence the real value of any particular
14 level of income in Newfoundland is less
15 than that of a similar income on the Main-
16 land. For instance, an income of \$4,000.
17 in Newfoundland is equaled by an income of,
18 say, \$3,600. on the Mainland. The person
19 earning \$3,600. on the Mainland pays less
20 income tax than the person earning \$4,000.
21 in Newfoundland, whereas, in fact, his
22 real income - that is the amount he can buy
23 for his income - is about the same. There-
24 fore, it would be inequitable for the
25 person earning \$4,000. in Newfoundland to
26 pay the same rate of tax as the person
27 earning \$3,600. on the Mainland. This, of
28 course, would mean a reduction in the tax
29 as it is now applied in Newfoundland, be-
30 cause higher incomes pay a higher rate of



1 tax than lower incomes.

2 (b) To establish the equity of a lower income tax
3 rate in Newfoundland compared with the Mainland,
4 we cite the fact that the cost of living in
5 Newfoundland is considerably higher than that of
6 the Mainland, whilst there is not much difference
7 in the cost of living between various points on
8 the Mainland. This is fairly evident from
9 information made available by the Gordon Com-
10 mission which expressed the opinion that the
11 cost of living between various parts of the
12 Mainland differed very little but that there
13 was a considerable increase when one crossed the
14 Cabot Strait into Newfoundland.

15 (c) We refer the Commissioners to Appendix B of our
16 Newfoundland Board of Trade Economic Survey of
17 St. John's and Newfoundland - 1961, by Dr.
18 Parzival Copes wherein is established approxi-
19 mately the difference in the level of income in
20 Newfoundland and Mainland Canada. The Depart-
21 ment of National Defence has recognized the
22 difference in the cost of living of Newfoundland
23 versus that of the Mainland, because a special
24 Newfoundland allowance is paid to servicemen
25 stationed in Newfoundland. Also a number of
26 large corporations with branches both on the
27 Mainland and in Newfoundland recognize the
28 principal of the higher cost of living here.
29 This is the case with some of the banks, where
30



1 a cost of living allowance is paid to employees
2 in Newfoundland. Therefore there are precedents
3 for recognition of the difference in the cost
4 of living between Newfoundland and the Mainland.

5 12. Corporation Tax

6 (a) Newfoundland and the other Atlantic Provinces
7 constitute a relatively depressed area within
8 Canada. We have very high rates of unemployment
9 and we obviously need more industry to create
10 additional jobs. It is also evident that,
11 because of reasons of economic geography, New-
12 foundland industry is at a competitive dis-
13 advantage with respect to industry on the Main-
14 land, particularly with respect to industry in
15 central Canada.

16 (b) To offset this competitive disadvantage and in
17 order to create the employment opportunities
18 that are needed here, special incentives should
19 be given to manufacturing industries to set up
20 establishments in Newfoundland or to expand
21 existing facilities. One of the major means of
22 inducing corporations to expand such activities
23 in Newfoundland is to provide them with tax
24 incentives to do so. These tax incentives have
25 been used in a number of countries to stimulate
26 economic development in retarded regions and
27 there is no reason why this should not be done
28 in Canada also.

29 (c) We suggest consideration be given to provide
30



1 accelerated depreciation allowances for firms
2 establishing new operations in Newfoundland. Another
3 device which has been used successfully in Norway
4 is to grant exemption from taxes for that portion of
5 income of corporations that is being set aside for
6 investment in a depressed region.

7 CONCLUSION

8 Finally, gentlemen, it behoves us to state that
9 whilst we find ourselves at an economic disadvantage,
10 accentuated by our peripheral position, in relation
11 to the rest of Canada, we take the long term view
12 of what we can offer the National Treasury in the
13 future provided we be given the necessary financial
14 incentive for production.

15 We are deeply cognizant of the significance of your
16 research and the bearing your resulting recommend-
17 ations will have upon our Province. We trust their
18 implementation will give us the opportunity we seek
19 to work with our fellow citizens of the other
20 Provinces on an equitable basis for the greater good
21 of all Canada.

22 We thank you for the opportunity to present this
23 Brief which we hereby respectfully submit.

24 (Signed) Michael S.E. Hope,
25 President

26 Edwin G. Godden,
27 Chairman Tax Committee

28 Anthony G. Ayre,
Executive Manager

29 Nfld. Board of Trade, P.O. Box 5127, St. John's, Nfld.
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TORONTO, ONTARIO

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6 BRIEF

7 TO

8 THE ROYAL COMMISSION ON TAXATION

9 CONCERNING

10 THE EFFECTS OF THE ESTATE TAX ACT

11 ON THE ECONOMY

12 OF

13 THE PROVINCE OF NEWFOUNDLAND

14
15 JULY 5th, 1963
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THE EFFECTS OF THE ESTATE TAX ACT ON THE ECONOMY OF
THE PROVINCE OF NEWFOUNDLAND

The complex combination of a number of basic economic features, few of which are shared with the other Provinces of Canada, create in Newfoundland an economy that is singularly unique.

The island occupies a peripheral position considerably removed from Canadian and, indeed, world centres of commerce, industry, and capital. Distance alone curtails the mobility of labour, increases transportation costs which bear heavily on exports to competitive markets and on imports of essential commodities. The last mentioned feature combined with a limited amount of arable land creates the highest average cost of living of any Province in Canada. Wide and not infrequent fluctuations in climatic conditions produce sharp variations in economic activity. The rather small and widely dispersed population does not attract industries that survive on mass production for mass markets.

Evidence of the foregoing and of other factors peculiar to Newfoundland such as the low level of per capita income, the high rate of unemployment, the low per capita provincial product, and the sharp decline in the once prime industry, fishing, is not included herein because of the availability of ample documentation elsewhere.

Because of the insular nature of the economy of

* See Appendix: ref "The St. John's-Newfoundland Economic Survey" by Parzival Copes, M.A., Ph.D.



1 Newfoundland, business is more self-sustaining than in
2 other Provinces. It has, therefore, been a logical
3 development that, apart from certain resource industries
4 (notably mining and pulp and paper), the business of
5 the island should have been developed and continues to
6 be effectively carried on by firms that are purely local.
7 Of such firms there is a relatively greater number in
8 Newfoundland than in any other Province. Thus, the
9 Newfoundland economy is dependent on the activity of local
10 firms to a much greater degree than is the economy in
11 other Provinces. Over ninety per cent. of business firms
12 in Newfoundland are private enterprises. Many such
13 firms have a long history of service to Newfoundland.
14 Originally created, for the most part, as sole pro-
15 prietorships they have grown and have continued as family
16 owned corporations or as companies whose shares are close-
17 ly held by current management and/or by their retired
18 predecessors. Thus, the capital so essential to these
19 interests is primarily furnished by local sources.

20 . Only through careful and effective management
21 over several generations of persons knowledgeable of,
22 and faithful to, the economy has sufficient capital been
23 generated to conduct business on the present scale.

24 The alternative sources of capital available
25 elsewhere in Canada are seldom attracted to Newfoundland
26 the reasons for which probably lie in the aforementioned
27 accumulated basic vagaries of weather, distance, markets
28 limited by a sparse population, many of whom are un-
29 employed, and the risk factor attributed to investment in
30



1 an economy so different from that with which investors
2 are familiar in other parts of Canada.

3 It follows that the "market" outside of the
4 Province for shares of Newfoundland enterprises is either
5 non-existent or, at best, extremely limited. Moreover,
6 the capital accumulated within the Province is confined
7 primarily to the capital funds essential to the conduct
8 of the local businesses with the result that additional
9 capital for participation in the firms is inadequate.
10 Therefore, the problem of securing alternative capital
11 upon the withdrawal of present capital at death or
12 retirement of the shareholders is of considerable concern.

13 In brief, the virtual non-existence of a "market"
14 for shares in Newfoundland companies makes a very compel-
15 ling argument for the preservation of existing local
16 capital.

17 The most serious threat to the survival of
18 existing capital lies in the administrative application
19 of the Estate Tax Act of the Government of Canada which
20 arbitrarily establishes upon the death of shareholders an
21 unduly high "market value" for shares of Newfoundland
22 companies although little or no "market" exists or can be
23 created.

24 In order to give proper consideration to the
25 application of Estate taxes to shares of Newfoundland
26 companies careful consideration must be given to the two
27 principal methods used in determining the valuation of
28 share capitalization for Estate Tax purposes, viz:-

- 29 1) valuation of net worth (i.e. net assets
30



adjusted for goodwill etc. less net
liabilities)

2) capitalization of earning.

With regard to the first of these methods as applied in Newfoundland, cognizance should be taken of a number of salient features peculiar to the Newfoundland economy. In the first place, the high cost of buildings and other fixed assets in Newfoundland as compared with other Provinces is much more a reflection of the peripheral and insular nature of the economy than it is of the true worth of the assets. This feature is particularly apparent when one compares the cost of these assets with their counterparts in other areas of Canada. Thus, to value such assets on a basis that is equitable in relation to valuations elsewhere in Canada requires a downward adjustment from figures based on cost.

Secondly, some allowance should be made for lower asset valuations in cases where it is apparent that the assets in Newfoundland cannot under normal circumstances be expected to earn a return comparable to that enjoyed by similarly employed assets elsewhere in Canada.

Thirdly, the exceptionally wide variations in economic conditions in Newfoundland which have been referred to and alluded to (there is ample documentation elsewhere as previously mentioned - See Appendix) must surely compel a very much lower valuations of receivables and other assets the realization of which can be precariously affected by a single season of adverse conditions in any one of a number of businesses (fishing in particular).



1 The capitalization of earnings method of deter-
2 mining the net worth of a company also begs of special
3 consideration in application to Newfoundland. In
4 support of this contention two graphic presentations are
5 attached showing the effect of market forces in the
6 application of the interest rate concept to the public
7 borrowings in the market place by the Province of
8 Newfoundland. In the comparison (Chart 1) of the cost of
9 Newfoundland long-term bond issue (18 to 25 year term)
10 with similar borrowings in Ontario it is apparent that
11 market forces have obliged Newfoundland to pay over 1/2
12 of 1% more than Ontario for its capital requirements.
13 Similarly, Chart 2 indicates that investors have in
14 recent years required a yield on new issues of long-term
15 Newfoundland bonds that is nearly 1/2 of 1% higher than
16 the yield on 10 representative provincial issues in the
17 index prepared by McLeod, Young, Weir & Company Limited.
18 Herein lies a precise measurement of "market" conditions
19 suitable for comparing market levels of Newfoundland
20 securities with other areas. It is, however, widely
21 recognized that the differential in yield rates widens as
22 one moves from consideration of the prime class of secur-
23 ity (provincial issues) to the secondary and tertiary
24 classes of securities as are issued by varying types of
25 corporations. To allow for this further widening of
26 interest rates would require at least an additional 1/2
27 of 1%, thereby making a total differential of not less
28 than one percentage point from similar valuations in
29 other provinces.
30



1 This initial suggestion of a 1% differential is
2 based on market conditions for the prime provincial
3 security and some additional allowance has been made for
4 the traditional spread between such issues and corporate
5 issues. However, no allowance has been made for the
6 previously mentioned lack of marketability of corporate
7 issues which is most significant in the case of Newfound-
8 land companies. To take due cognizance of this feature,
9 a further widening of the yield differential to, say,
10 2% would undoubtedly be more realistic, and in some
11 cases it would, no doubt, be appropriate to consider a
12 differential of 3 to 4%.

13 An example will show the effect of a 2% variation
14 in the rate of capitalization on the determination of
15 total capitalization, viz:-

16 Assume average earnings of two firms engaged
17 in similar lines of business, one in Ontario, the other
18 in Newfoundland to be \$48,000 per annum. If, in Ontario,
19 earnings for this type of company are capitalized at 10%,
20 the capitalization is considered to be \$480,000. By
21 comparison a similar firm in Newfoundland earning \$48,000
22 per annum may be capitalized at 12%, thereby making the
23 capitalization \$400,000.

24 Estate taxes based on figures deduced from the
25 lower capitalization of Newfoundland companies, such as
26 demonstrated in the example, would give appropriate
27 recognition to the unique characteristics of the New-
28 foundland economy. To achieve this equitable result
29 requires only an adjustment in the methods of adminis-
30 trative assessment; no legislative amendments to the



1 Estate Tax Act would be necessary.

2 In conclusion, it must be reiterated that due
3 cognizance by the Estate Tax authorities of the unique
4 combination of economic factors pertaining in Newfound-
5 land is essential to the survival of the existing
6 capital in this Province. And it can scarcely be denied
7 that such local capital, and more, is required to prevent
8 curtailment and/or discontinuance of numerous firms
9 employing many persons in a Province where unemployment
10 is already at a high level and where little non-resident
11 capital is attracted. Without estate tax relief Newfound-
12 land can scarcely be expected to maintain its present
13 economic position in Canada or in the Atlantic Provinces.

14

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16 3rd July, 1963

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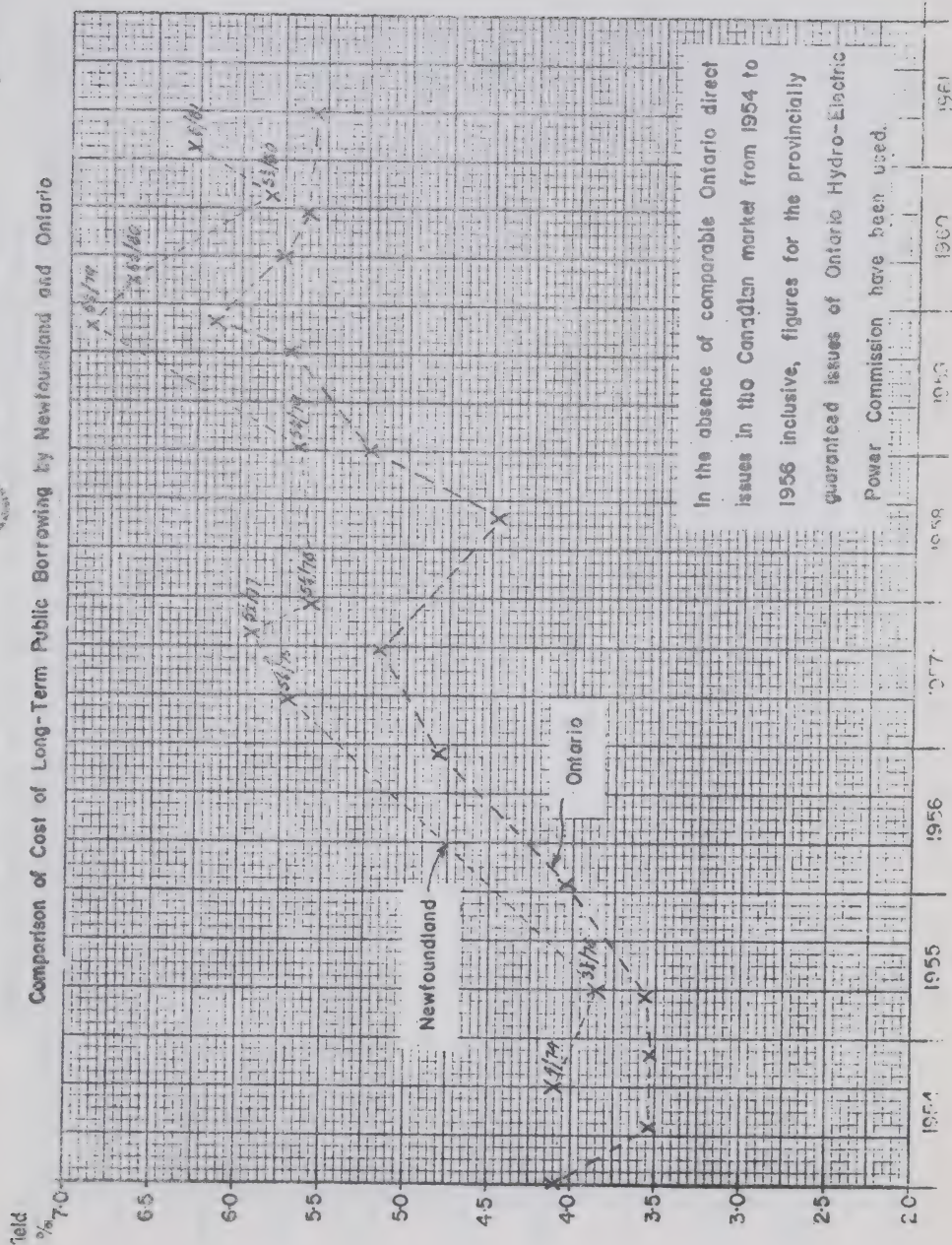
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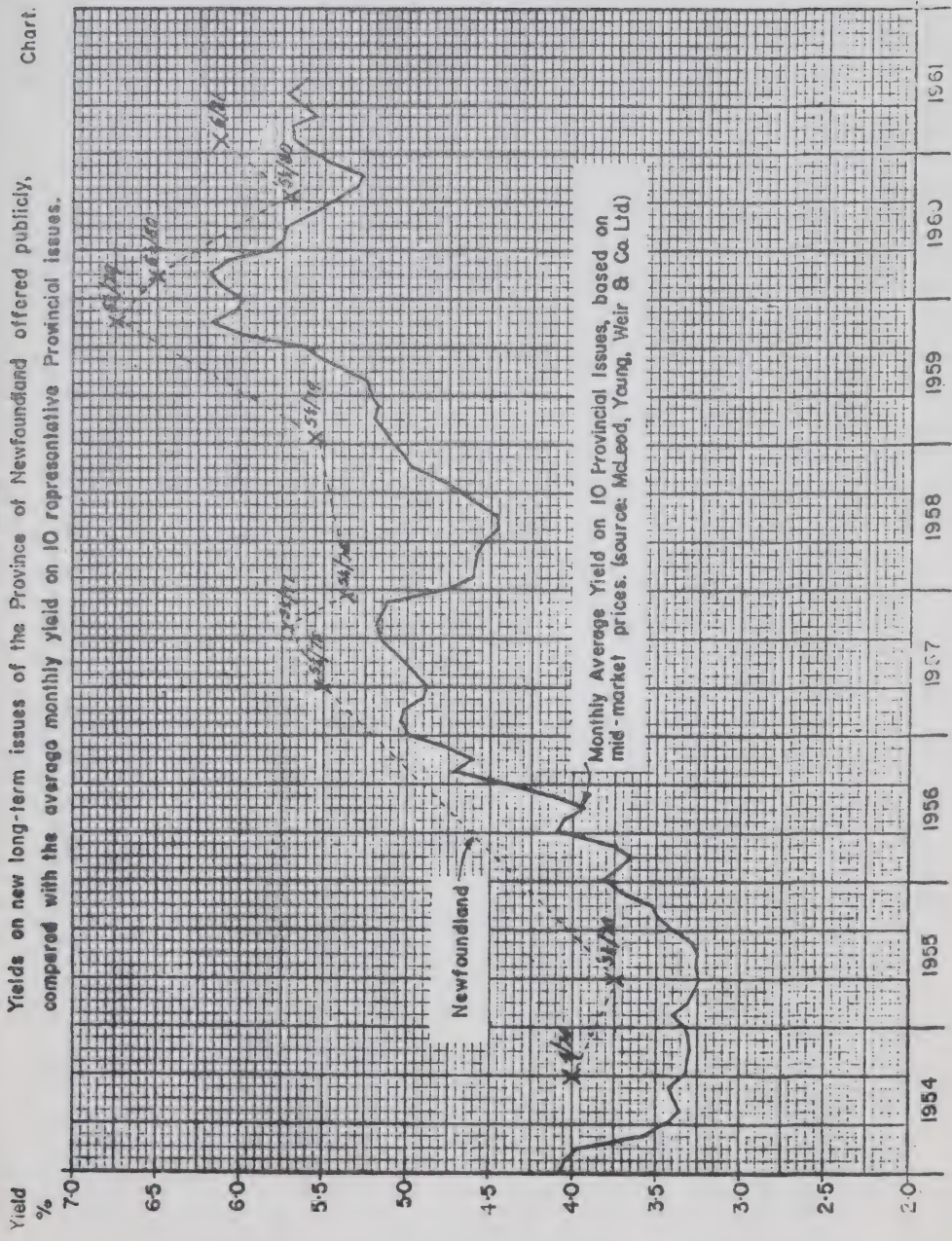
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Comparison of Cost of Long-Term Public Borrowing by Newfoundland and Ontario



Yields on new long-term issues of the Province of Newfoundland offered publicly, compared with the average monthly yield on 10 representative Provincial issues.





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A P P E N D I X



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COPES REPORT

OUR REPORT TEXT

REFERENCES

The complex combination of a number of basic economic features, few of which are shared with the other Provinces of Canada, create in Newfoundland an economy that is singularly unique. The island

occupies a peripheral position considerably removed from Canadian and, indeed, world centres of commerce, industry, and capital. Distance alone curtails the

mobility of labour,

Table 52

increased transportation costs which bear heavily on exports to competitive markets and on imports of essential commodities.

Table 24

The last mentioned feature combined with a limited amount of arable land creates the highest average cost of living of any Province in Canada.

Table 24

Appendix "B"

Wide and not infrequent fluctuations in climatic conditions produce sharp variations in economic activity.

Table 30 C

The rather small and widely dispersed population does not attract industries that survive on mass production for mass markets.

Table 24

Evidence of the foregoing and of other factors peculiar to Newfoundland such as the low level of per capita income,

Table 46



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1	the high rate of unemployment,	Table 30
2	the low per capita provincial product,	Table 5
3	and the sharp decline in the once prime	
4	industry, fishing,	Table 25
5	is not included herein because of the	
6	availability of ample documentation	
7	elsewhere.	
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TABLE 52 - NET MIGRATION FOR NEWFOUNDLAND, BY FIVE YEAR PERIODS - 1926 - 1955.

PERIOD	NET MIGRATION	NET MIGRATION AS PERCENTAGE OF POPULATION IN FIRST YEAR OF PERIOD
1926 - 1930	- 4,361	- 1.6
1931 - 1935	- 1,222	- 0.4
1936 - 1940	- 8,784	- 3.0
1941 - 1945	- 7,053	- 2.3
1946 - 1950	-16,862	- 5.1
1951 - 1955	+ 10,169	+ 2.8

SOURCE: Howland, R.D., Some Regional Aspects of Canada's Economic Development, p.195.

TABLE 24 - DISTRIBUTION OF THE LABOUR FORCE, BY OCCUPATION GROUP, FOR CANADA, NEWFOUNDLAND AND THE CITY OF ST. JOHN'S, 1951

Occupation Group	Canada			Newfoundland			St. John's			St. John's as % of Newfoundland
	Number	Percentage Distribution		Number	Percentage Distribution		Number	Percentage Distribution		
All occupations	5,286,153	100.0		105,640	100.0		19,195	100.0		18.0
Proprietary and managerial	407,791	7.7		6,829	6.4		2,011	10.5		29.4
Professional	376,680	7.1		5,468	5.1		1,755	9.1		32.1
Clerical	368,709	10.7		6,678	6.3		3,317	17.3		49.7
Workers-resource exploitation	1,647,648	19.8		33,474	31.5		169	0.8		0.5
Agricultural	(33,441)	(15.7)		(3,682)	(3.5)		(76)	(0.4)		(2.1)
Fishing and trapping	(50,877)	(1.0)		(18,383)	(17.3)		(81)	(8.4)		(0.4)
Logging	(101,939)	(1.9)		(9,153)	(8.6)		(8)	(-)		(0.1)
Mining and quarrying	(65,231)	(1.2)		(2,256)	(2.1)		(4)	(-)		(0.2)
Tradesmen	2,473,544	46.9		44,456	42.5		10,885	56.8		24.5
Manufacturing and mechanical	(841,368)	(15.9)		(8,656)	(8.1)		(2,189)	(11.4)		(25.3)
Electric light and power production and stationary engineers	(61,658)	(1.2)		(1,533)	(1.4)		(254)	(1.3)		(16.6)
Construction	(299,611)	(5.7)		(7,105)	(6.7)		(1,182)	(6.2)		(16.6)
Transportation	(342,189)	(6.5)		(9,684)	(9.9)		(2,109)	(11.0)		(21.8)
Communication	(71,718)	(1.4)		(1,333)	(1.3)		(260)	(1.4)		(19.5)
Commercial	(308,573)	(5.8)		(3,566)	(5.2)		(1,976)	(10.3)		(35.5)
Financial	(32,305)	(0.6)		(1,109)	(0.1)		(79)	(0.4)		(72.5)
Service	(515,782)	(9.8)		(10,470)	(9.8)		(2,836)	(14.8)		(27.1)
General labourers (not resource exploitation)	351,206	6.6		8,549	8.0		921	4.8		10.8
Not stated	64,155	1.2		1,089	1.0		135	0.7		12.4

Source: D.B.S., Census of Canada, 1951, Vol. I IV, Tables 4 and 6.



APPENDIX "B"

THE COST OF LIVING IN NEWFOUNDLAND

It is often found that countries or regions with comparatively low per capita incomes also have comparatively low price levels for essential consumers' goods and services. Thus, the extremely low average income of Asiatic and African countries (in many parts lower than \$100 per person per year) is made tolerable only by very low prices for food, shelter, clothing and personal services. The lower incomes of Western Europe compared to those of North America, are also compensated to some extent by lower prices for consumers' essentials. There are obvious reasons for this relationship: the bulk of essential consumer goods and services are usually produced in the country of consumption, where the cost of production will be related to the prevailing wage level. This pattern does not apply to Newfoundland, which suffers the worst of two worlds. Compared to the North American mainland our incomes are low while our prices are high. These high prices result from the circumstance that we are able to produce so few of the commodities - essential or otherwise - that we consume. Geographical proximity and our political confinement within the Canadian tariff area force us to buy most of our consumer goods in the high-price North American market and pay the cost of transportation to our island as well. This then accounts for the unfortunate circumstance that Newfoundland, relative to mainland Canada, while being a low income area is simultaneously an area of high consumer



1 prices.

2 The magnitude of the difference between price
3 levels in Newfoundland and the Canadian mainland has been
4 the subject of sustained speculation. The question lies
5 at the basis of many claims for special financial con-
6 sideration. There are, for instance, the perennial
7 requests for cost-of-living bonuses by employees posted
8 from mainland to Newfoundland positions. At a higher
9 level, the Provincial Government in negotiating various
10 federal payments to Newfoundland, frequently involves
11 the cost-of-living argument - as was done in Newfound-
12 land's claim in the contentious 'Term 29' issue. 430r

13 Attempts have been made to estimate the
14 Newfoundland/mainland price differential, but the results
15 have lacked precision. The trouble lies largely in the
16 statistical difficulties involved in constructing a
17 satisfactory 'spatial' price index. The accepted pro-
18 cedure for making cost-of-living comparisons is to draw
19 up the typical 'basket of goods and services' bought over
20 a week, month, or year by the 'average' household. This
21 basket may then be priced at different points in time in
22 a certain locality to give a 'temporal' index applicable
23 to that locality - the basket cost at the base point of
24 time being set at 100, the cost at other times being
25 shown proportionally. The basket may also be priced at
26 the same moment in time at different locations to give a
27 'spatial' index - the basket cost in one place being set
28 at 100 and at other places proportionally. It is the
29 latter type of index that is needed to show the cost of
30



1 living in Newfoundland compared to a base of 100 on the
2 mainland. The difficulty in constructing the index lies
3 in the selection of the typical basket - for the expendi-
4 ture typical of the St. John's family is not typical of
5 families in Halifax, Toronto or Vancouver.

6 In 1950 the Newfoundland Royal Commission on the
7 Cost of Living in Newfoundland brought out their report
8 which included some observations on regional price
9 differences within Newfoundland and as between Newfound-
10 land and Nova Scotia. 431r. But the Commission did not
11 venture to summarize its findings in the form of an
12 index number. More recently, R. D. Howland in his report
13 (published in November 1957) on regional aspects of
14 Canada's economic development, sponsored by the Gordon
15 Commission, expressed the opinion that: "it seems
16 reasonable to conclude that the price level for the same
17 basket of goods and services does not vary very much
18 between metropolitan centres in Canada except in
19 Newfoundland, where the level would appear to be some
20 10% higher. 432r.

21 The most useful information on Newfoundland's
22 cost of living compared to that of the mainland comes
23 from the Dominion Bureau of Statistics which undertook
24 interspatial studies of prices in Halifax and St. John's
25 in the fall of 1954 and in November 1955. 433r. The
26 1954 study was confined solely to foods and recognized
27 the difference in the typical food baskets of Halifax
28 and St. John's. With a 100 base in Halifax, the Halifax
29 basket cost 120 in St. John's. Again with a 100 base in
30



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1 Halifax, the St. John's basket cost 112 in St. John's.
2 It is to be expected that the St. John's basket would
3 cost relatively less in St. John's than the Halifax
4 basket. For St. John's families would tend to concentrate
5 their purchases on those goods for which the higher price
6 in St. John's was least pronounced. It could be argued
7 that food prices were either 12 or 20 per cent higher in
8 St. John's than in Halifax, depending on which basket one
9 is considering. The usual statistical procedure is to
10 take an average of the two. The D.B.S. Study of November
11 1955 was undertaken in greater detail and rested on a
12 more thorough appraisal of St. John's consumers' buying
13 habits. It considered not only food costs, but also
14 other major items in the household budget, although
15 shelter costs were excluded. It found that food costs
16 were 19 or 27 per cent higher in St. John's than in
17 Halifax, depending respectively on whether the St. John's
18 or the Halifax basket was used. The price difference on
19 many other important items must have been considerably
20 less. The details have not been published, but the
21 summary findings stated that an "...estimate of 11 per
22 cent is a useful indication of the magnitude of the
23 prices difference". 434r.

24 Shelter costs were not included in this index
25 because of difficulties in finding comparable units for
26 pricing in Halifax and St. John's. However, the Central
27 Mortgage and Housing Corporation reports on building
28 costs show that certain standard residential structures
29 cost 35 percent more to erect in Newfoundland than in the
30 Maritimes. 435r. The cost of residential construction in



1 St. John's is close to the Newfoundland average. Labour
2 costs in the city are higher than in the smaller
3 communities, but this is offset by lower material costs.
4 The cost of a finished home in Halifax, however, is high-
5 er than t/hat of a comparable structure in most other
6 parts of the Maritimes, particularly because of high
7 land costs and a keen market in that city. In consequence,
8 the difference between the finished costs of comparable
9 residential construction in St. John's and Halifax may
10 be in the range of 20-30 percent, rather than 35 percent.
11 These construction costs naturally bear a fairly close
12 relationship to shelter costs (i.e. rents or home-owner-
13 ship costs). A reasonable estimate of the St. John's/
14 Halifax difference in shelter costs may be set at 25
15 percent. Applying the appropriate weight established by
16 D.B.S. for shelter costs ($13\frac{1}{2}$ percent of the total index,
17 being an average of 13 percent for St. John's and 14
18 percent for Halifax), the inclusion of these costs would
19 raise the St. John's/Halifax cost-of-living differential
20 from 11 to 13 percent.

21 In any superficial comparison of the prices of
22 consumers goods in St. John's with those in mainland
23 cities, the most striking difference undoubtedly is in
24 the cost of food. An analysis of available statistics
25 confirms this ready observation. According to the
26 November 1955 survey by D.B.S., the cost of living in St.
27 John's was 11 percent higher than in Halifax. The
28 calculations on which this figure was based covered all
29 the usual categories of expenditure included in a
30 consumer price index, except shelter. D.B.S. also



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1 ventured to make known the index for the food component
2 in their calculations. This indicated that the differ-
3 ences between food costs in the two cities was much greater
4 than the over-all cost-of-living differential. In fact,
5 food prices in St. John's were about 23 percent higher
6 than in Halifax. 436r. From this figure and the general
7 index differential it can be deduced that the cost of
8 items other than food and shelter averaged only 3 to 4
9 percent more in St. John's than in Halifax. 437r.

10 Almost all of this margin is accounted for by the 3 per-
11 cent sales tax which was then levied on most commodities
12 bought in St. John's, but which did not apply in Halifax
13 at the time. Outside of food and shelter, then, there is
14 very little difference between prices of consumers goods
15 (net of sales tax) in St. John's and Halifax, or at any
16 rate such differences as may exist tend to offset one
17 another. 438e. Unfortunately, the index components
18 which show relatively the highest prices in St. John's,
19 constitute a major proportion of the consumer's budget.
20 Food accounts for about one-third of the budget, and
21 food and shelter together make up close to half of the
22 budget, and thus of the index.

23 Of the 13 percent St. John's/Halifax cost-of-
24 living differential (including shelter) which existed in
25 November 1955, about 2½% may be attributed to the sales
26 tax on most items sold in St. John's, leaving 10½ percent
27 to be accounted for by the higher price in St. John's of
28 goods and services themselves. On the basis of the
29 considerations put forward above, food costs account for
30



about 8 percent of the differential. The shelter cost differential between St. John's and Halifax, as explained above, was of the same order of magnitude as the food price differential. However shelter costs made up a smaller proportion of the consumer's budget and thus accounted for only 2 percent of the over-all St. John's/Halifax differential. Goods and services other than food and shelter accounted for the remaining $\frac{1}{2}$ percent.

The difference in the cost-of-living between St. John's and Halifax has not changed very much since November 1955. The Dominion Bureau of Statistics has updated its original spatial index, as shown below. Side by side is shown the index which results when shelter costs are taken into consideration on the basis discussed above.

	St. John's spatial consumer price index, excluding shelter (Halifax=100)	St. John's spatial consumer price index, including shelter (Halifax = 100)
Nov. 1955	111.0	113.0
Nov. 1956	110.8	112.8
Nov. 1957	111.0	112.9
Nov. 1958	110.6	112.6
Nov. 1959	109.6	111.6
June 1960	112.0	114.0

By the middle of 1960, the St. John's/Halifax cost-of-living differential (including a shelter component) had reached the magnitude of 14 percent. The index figure shown here for the period November 1955-June 1960 do not reveal any distinct trend towards a widening or narrowing of the cost-of-living gap between St. John's



1 and Halifax. However, a study of available long-term
2 consumer price index statistics shows clearly that the
3 cost-of-living in St. John's has increased for more rapid-
4 ly than in the urban centres of mainland Canada.

5 The oldest series of cost-of-living index
6 numbers comparing St. John's with mainland Canada runs
7 over the period October 1938-February 1949. 440r.
8 During that period the cost of living in St. John's ad-
9 vanced 86.3 percent as against an increase of 56.8
10 percent for Canada. Confederation brought a downward
11 adjustment of many consumers prices in Newfoundland.
12 This was because of the removal of the very stiff New-
13 foundland import duties which, since 1900, varied from
14 20 - 36 percent of the value of imports. 441r. Since
15 the price re-adjustment at the time of Confederation
16 consumers prices have been advancing far more rapidly in
17 Newfoundland than on the mainland.

18 In June 1951 the Dominion Bureau of Statistics
19 commenced a 'temporal' consumer price index for St.
20 John's, showing month-to-month changes in the cost-of-
21 living. Consumer price indexes for nine other regional
22 Canadian cities (or city combinations), as well as a
23 general index based on 27 cities with populations over
24 30,000, were already being maintained by D.B.S. To
25 facilitate comparisons, the D.B.S. data for the other
26 cities have been re-calculated in Table 131 to the same
27 base as St. John's (viz. June 1951 = 100). These temporal
28 indexes do not allow any direct comparisons of the cost-
29 of-living between cities, as does the St. John's/Halifax
30



1 spatial index. But they do show variations between
2 cities in the extent to which the cost of living has
3 risen since the base period of June 1951. The figures
4 show that the cost-of-living in St. John's has advanced
5 persistently and significantly at a more rapid pace than
6 that in any of the other centres across the country. In
7 the nine years up to June 1960 the consumer price index
8 for St. John's rose 16.2 percent. The next highest rise
9 was one of 13.9 percent recorded in Halifax. The rise for
10 Canadian cities generally was 12.2 percent. The lowest
11 rise was one of 8.9 percent in Edmonton, Calgary. It is
12 clear, then, that the cost-of-living gap between St.
13 John's and Halifax has widened and that the gap between
14 St. John's and other mainland urban centres has widened
15 even more.

16 Not only are food prices the main factor in the
17 higher cost of living of St. John's over that of mainland
18 centres, but the disproportionate advance of St. John's
19 food prices is also the chief cause of the further widen-
20 ing of this cost of living gap. In Table 132 the D.B.S.
21 food price indexes for Canadian cities are shown converted
22 to a common base of 100 for June 1951. This table gives
23 evidence of an astounding disparity of food price move-
24 ments in St. John's compared to mainland centres during
25 the period June 1951 - June 1960 (see fig.). While
26 St. John's food prices rose 14.6 percent, those of the
27 other cities did not move very far from the base level.
28 The general city index went up 4.3 percent, but prices
29 in the major mainland regional centres were generally
30



1 less than that. In Edmonton Calgary and Winnipeg food
2 price declines were recorded over this eight-year period.

3 As mentioned before, in the non-food and non-
4 shelter components of the consumer price index, St.
5 John's prices do not appear to have been very much out
6 of line with those of mainland cities at the time of the
7 St. John's/Halifax spatial survey. Relative price move-
8 ments have not seriously altered this situation. Since
9 June 1951 prices of clothing and household operations
10 have risen a little more sharply in St. John's than on
11 the mainland, but in other miscellaneous expenditures
12 the opposite was the case (see Table 133). As far as
13 shelter costs are concerned, there has been a significant
14 narrowing of the gap between St. John's and the mainland.

15 The main element in the cost-of-living difference
16 between Newfoundland and the mainland, in the final
17 analysis, is that of transportation costs. Newfoundland
18 produces a much smaller share of the consumers
19 goods that it uses than does any other region of Canada,
20 except the northern territories. And not only does
21 Newfoundland have to import so great a share of its needs,
22 it must also have these shipped over particularly long
23 distances because of the province's remote location.
24 Transportation costs, then, are a considerably larger
25 element in the retail price of consumers goods in
26 Newfoundland, than in the mainland provinces.

27 A detailed analysis of consumer price index
28 data reveals further evidence that transportation costs
29 chiefly are responsible for our high cost of living. As
30



1 mentioned above, the food component of the consumer
2 price index shows the greatest difference between St.
3 John's and the mainland, and it is food prices that are
4 particularly affected by transportation charges. About
5 90 percent of food marketed in Newfoundland has to be
6 imported (see Table 35). Because of the care required
7 in the handling of many food commodities, transportation
8 costs are particularly heavy, taking up an average margin
9 of perhaps 15 percent of retail food prices in St. John's.
10 443r. On most other commodities the margin represented
11 by transportation charges is much less - ranging, perhaps,
12 from two to five percent - and this helps explain why the
13 non-food components of the consumer price index for St.
14 John's are not as much above mainland levels as is the
15 food index.

16 The progressive widening of the St. John's/main-
17 land, cost-of-living gap since 1951 can also be traced -
18 at least in some measure - to transportation costs.
19 Since June 1951 general railway freight rates have in-
20 creased some 67 percent. 444r. Other transportation
21 rates have moved up in sympathy. This compares with a
22 general consumer price index rise of about 12 percent.
23 Transportation charges have undoubtedly been one of the
24 fastest (if not the fastest) rising cost elements in
25 consumers prices. Because transportation charges have
26 more bearing on Newfoundland prices than on mainland
27 prices, Newfoundland prices have been rising more rapidly.

28 In most parts of Canada the cost of living in
29 rural areas is lower - or at least not significantly
30



1 higher, than in the neighbouring urban centres. With
2 adequate road networks and a well dispersed distribution
3 system, the differential in transportation costs to
4 urban, as opposed to rural, centres is usually not
5 significant. The low cost of locally grown food, as well
6 as markedly lower wage rates and real estate costs, in
7 rural areas often help to bring the cost of living
8 below that in nearby urban centres. In Newfoundland,
9 however, the relative weights of these factors are signifi-
10 cantly different. Most of the outports have relatively
11 poor communications with the outside world and, at the
12 same time, a very low level of self-sufficiency. The
13 expense of shipping a large share of the province's
14 supply of consumers goods by costly transportation routes
15 adds considerably to the final prices of these goods in
16 localities outside the main distribution centres.
17 Commodity prices in Corner Brook and Grand Falls may not
18 be very much out of line with those in St. John's, but
19 in the smaller communities the average of retail prices
20 is well above that of the capital. In 1955, for instance,
21 it was found that food prices along the north-east coast
22 of Newfoundland were at least 6 to 11 percent higher than
23 in St. John's. 445r. The cost of living in St. John's,
24 undoubtedly, is at least two or three percent lower than
25 the provincial average. 446r.

26 The June 1960 cost-of-living difference between
27 St. John's and Halifax was 14 percent. The general
28 Newfoundland level of consumers prices is higher than
29 that of St. John's, and the general mainland level is
30



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1 lower than that of Halifax. Consumer prices in
2 Newfoundland in 1960 may be roughly estimated to be about
3 20 - 25 percent above those of the mainland, while the
4 gap continues to widen.

Table 30C - Variation in the size of the Labour Force in Newfoundland, the Maritimes and Canada, 1954-1959

YEAR	NEWFOUNDLAND			MARITIMES			CANADA		
	Size of Labour Force (thousands) 1			Size of Labour Force (thousands)			Size of Labour Force (thousands)		
	Smallest	Largest	Percentage 2 Variation	Smallest	Largest	Percentage 2 Variation	Smallest	Largest	Percentage 2 Variation
1953	92	109	..	385	432	..	5,246	5,594	5.7
1954	87	110	26	383	415	..	5,332	5,675	6.0
1955	91	114	23	388	427	9	5,423	5,826	6.0
1956	96	118	21	394	432	9	5,580	6,008	6.0
1957	101	119	17	406	449	8	5,771	6,223	5.2
1958	103	118	15	421	447	6	5,958	6,314	4.9
1959	107	125	14	419	451	7	6,076	6,434	

.. Not available

- NOTES: 1. Smallest and largest of twelve estimates (one in each month) taken each year
 2. Percentage by which the smallest estimate for a year is exceeded by the average of the largest estimates for that year and the previous year.

Source: Calculated from D.P.S., The Labour Force, 1958-1960, Table 12, and The Labour Force, Reference Paper No. 58, pp. 120, 151 and 180.

Table 46 - Per Capita Personal Income and its Major Components for Newfoundland, the Maritimes and Ontario as a percentage of Canada 1949-1959

YEAR	As a percentage of the Canadian per capita average									
	TOTAL PERSONAL INCOME			EARNED INCOME ¹			INTEREST & DIVIDENDS			GOVT. TRANSFER PAYMENTS ²
	Nfld.	Maritimes	Ontario	Nfld.	Maritimes	Ontario	Nfld.	Maritimes	Ontario	
1949	50	71	119	50	69	-121	29	59	124	104
1950	51	71	121	50	69	123	34	60	127	100
1951	50	66	117	48	65	118	32	55	126	103
1952	49	67	117	47	65	118	33	51	129	102
1953	51	67	118	49	65	119	33	55	129	101
1954	54	70	120	52	68	121	37	58	131	98
1955	54	69	120	52	67	121	36	55	134	96
1956	55	68	117	52	67	118	36	55	132	93
1957	56	69	119	53	67	121	33	60	133	93
1958	57	69	118	52	67	120	33	53	132	96
1959	57	70	119	53	68	120	32	53	136	98

NOTES: 1-2. See Table 45, nn.1-2.

Source:

Calculated from D.B.S., National Accounts, Income and Expenditure, 1949-1959, Tables 28, 29, 34 and 35

Table 30 - Labour Force¹ and Peak Annual Unemployment Estimates for Newfoundland, the Maritimes and Canada, 1950-1960

Year	NEWFOUNDLAND				MARITIMES			
	Peak Survey date	Labour force (thousands)	No. of Unemployed (thousands)	Percentage of labour force unemployed	Peak survey date	No. of Unemployed (thousands)	Labour force (thousands)	Percentage of labour force unemployed
1950	Mar. 4	99	22	22	Mar. 4	39	415	9
1951	Mar. 3	97	13	13	Mar. 3	19	410	5
1952	Mar. 1	97	10	10	Mar. 1	22	383	6
1953	Apr. 18	99	12	12	Apr. 18	24	389	6
1954	Apr. 17	95	12	13	Mar. 20	44	383	11
1955	Mar. 19	93	11	12	Mar. 19	45	389	12
1956	Apr. 21	98	13	13	Apr. 21	43	406	11
1957	Apr. 20	103	13	13	Mar. 16	53	419	13
1958	Mar. 22	110	29	26	Mar. 22	72	422	17
1959	Mar. 21	108	34	31	Mar. 21	56	423	13
1960	Apr. 23	109	33	30	Mar. 19	56	427	13

NOTES: 1. During 1950 and 1951 four surveys were conducted at approximately quarterly intervals; during 1952 five surveys were conducted; in the years 1953 and following monthly surveys were conducted. For each region the survey with the highest unemployment estimate during the first half of the year is shown.

2. For definition see The Labour Force, January 1959, pp. 3-5.

Source: Calculated from D.B.S., The Labour Force, 1958-60, Table 12, and The Labour Force Reference Paper 58, pp. 120, 151 and 180.

Table 30 Continued

Year	Peak survey date ¹	Labour Force ² (thousands)	CANADA	
			No. of unemployed (thousands)	Percentage of labour force unemployed.
1950	Mar. 4	5,048	306	6.1
1951	Mar. 3	5,101	169	3.3
1952	Mar. 1	5,177	209	4.0
1953	Jan. 24	5,260	188	3.6
1954	Mar. 20	5,343	324	6.1
1955	Mar. 19	5,447	403	7.4
1956	Feb. 18	5,589	309	5.5
1957	Mar. 16	5,805	345	5.9
1958	Mar. 22	5,998	597	10.0
1959	Jan. 17	6,076	538	8.9
1960	Mar. 19	6,234	566	9.1

TABLE 5 - GROSS PROVINCIAL PRODUCT OF THE FOUR ATLANTIC PROVINCES, 1949 - 1958

	1949	1950	1951	1952	1953	1954 ¹	1955	1956	1957	1958
Gross Provincial Product in millions of current dollars										
Newfoundland	177	200	227	249	271	281	297	329	350	339
Prince Edward Island	54	61	69	76	72	72	76	85	83	90
Nova Scotia	490	533	574	623	665	685	719 ²	794	831	833
New Brunswick	346	379	433	452	467	489	525	584	590	578
Per capita gross Provincial Product in current dollars ¹										
Newfoundland	510	570	630	670	710	710	730	790	820	770
Prince Edward Island	570	640	700	760	710	710	760	860	840	900
Nova Scotia	780	840	890	950	1000	1020	1050	1140	1180	1170
New Brunswick	680	740	840	860	880	910	960	1050	1040	1000
Per capita Gross Provincial Product in constant (1956) dollars										
Newfoundland	650	710	700	710	750	740	750	790	790	730
Prince Edward Island	720	780	790	810	750	730	780	860	800	840
Nova Scotia	990	1040	1000	1020	1060	1050	1090	1140	1130	1110
New Brunswick	870	920	940	920	930	940	990	1050	1000	940
Index of per capita Gross Provincial Product in constant (1956) dollars (1949 = 100)										
Newfoundland	100	108	107	109	115-	113	116	122	121	112
Prince Edward Island	100	108	108	112	104	101	108	118	110	116
Nova Scotia	100	105-	101	103	107	106	110	115	114	111
New Brunswick	100	106	108	106	107	108	114	121	115	109

NOTE: 1 Rounded to nearest multiple of ten dollars.

Source: Calculated from Parks, A.C., *The Economy of the Atlantic Provinces, 1940-1958*, pp. 2-5

TABLE 25 - COMPARISON OF THE DISTRIBUTION OF THE LABOUR FORCE 1
BY INDUSTRY, IN NEWFOUNDLAND AND IN THE CITY OF ST. JOHN'S, IN
1945 and 1951

Industry	1945		1951		Percentage change in proportion of the labour force 1945 to 1951
	Number	Percentage Distributi.	Number	Percentage Distribution	
All industries	101,899	100.0	105,179	100.0	-
Commodity production	63,427	62.2	58,738	55.8	- 10
Resource exploitation	46,665	45.8	36,181	34.4	- 25
Agriculture	(4,179)	(4.1)	(3,525)	(3.5)	(- 18)
Logging and forest service	(7,606)	(7.5)	(10,534)	(10.0)	(+ 38)
Fishing	(31,624)	(31.0)	(18,148)	(17.3)	(- 42)
Hunting and trapping	(244)	(0.2)	(313)	(0.3)	(+ 28)
Mining and quarrying	(3,002)	(2.9)	(3,661)	(3.5)	(+ 22)
Manufacturing	10,251	10.1	14,624	13.9	(+ 38.2)
Pulp and paper	(3,125)	(3.1)	(4,565)	(4.3)	(+ 42)
Food, beverages and tobacco	(1,807)	(1.8)	(4,522)	(4.3)	(+ 142)
Wood products	(1,598)	(1.6)	(2,260)	(2.1)	(+ 37)
Other	(3,721)	(3.6)	(3,277)	(3.1)	(- 15)
Other commodity production	6,511	6.4	7,933	7.5	(+ 18)
Electricity and water supply	(337)	(0.3)	(642)	(0.6)	(+ 85)
Construction	(6,174)	(6.1)	(7,291)	(6.9)	(+ 14)
Services production	38,472	37.8	46,441	44.2	(+ 16.9)
Transportation, storage and communication	8,392	8.2	10,018	9.5	+ 16
Trade (wholesale and retail)	7,817	7.7	14,251	13.6	+ 77
Finance, insurance, real estate	407	0.4	610	0.6	+ 45
Community and commercial service	11,556	11.3	12,079	11.5	+ 1
Government service	10,300	10.1	9,483	9.0	- 11

CITY OF ST. JOHN'S

1945		1951		Percentage change in proportion of the labour force 1945 to 1951
Number	Percentage Distribution	Number	Percentage Distribution	
15,848	100.0	19,042	100.0	-
4,201	26.5	4,575	24.0	- 9
338	2.1	229	1.2	- 44
(59)	(0.4)	(57)	(0.3)	(*)
(17)	(0.1)	(20)	(0.1)	(*)
(253)	(1.6)	(146)	(0.8)	(- 52)
(-)	(-)	(-)	(-)	(-)
(9)	(0.1)	(6)	(-)	(*)
2,639	16.7	3,087	16.2	-2.6
(6)	(-)	(5)	(-)	(*)
(757)	(4.8)	(1,342)	(7.0)	(+ 48)
(152)	(1.0)	(166)	(0.9)	(- 9)
(1,724)	(10.9)	(1,574)	(8.3)	(- 24)
1,224	7.7	1,259	6.6	- 14
(74)	(0.5)	(169)	(0.9)	(+ 90)
(1,150)	(7.2)	(1,090)	(5.7)	(- 21)
11,647	73.5	14,467	76.0	+ 3
2,180	13.8	2,650	13.9	+ 1
3,036	19.2	4,805	25.2	+ 32
244	1.5	372	2.0	+ 27
3,375	21.3	3,926	20.6	- 3
2,812	17.7	2,714	14.3	- 20



Madison, June 8, 1963.

Mr. Kenneth Carter,
Chairman,
The Royal Commission on Taxation,
Department of Finance, Ottawa.

Dear Mr. Carter:

The enclosed article, "Let's Make
Marriage Financially Attractive" is a sincere
attempt to equalize to some extent the assessment
of Federal Income Tax between married and single
people.

I would greatly appreciate
consideration of this article by yourself and
your commission.

Yours truly,

(sgd) Earl A. Olmsted, Lt. Col.
Senior Canadian Army Operations Officer,
H.Q., 30 NORAD Region,
Madison, Wisconsin, U. S. A.



1st North Amer-Serial Rts.
-4000

Earl A. Olmsted, Lt. Col.,
438 Parkdale Avenue,
Ottawa 3, Ontario, Canada.

LET'S MAKE MARRIAGE FINANCIALLY ATTRACTIVE

(Why not give the married man an even tax break!)

by Earl A. Olmsted

Marriage is the basis of modern society:
it is the firm root on which our home life is
established and it provides our children and our
country with a pattern for living. We recognize
this fact and yet we call upon the married man to
bear a larger share of the country's expenses than
he should be expected to bear.

Surely you will agree that the true wealth
of any country lies in the people of the country,
their standards of living - moral, spiritual and
physical. Material wealth is nice to have but
it's not material wealth alone which determines
the standard of living in any nation, or that
nation's position in world affairs. The future
of our country and the maintenance of our position
in the world rests with our children, their children
and their children's children. If we accept this
assumption then perhaps we should also accept our
responsibility towards the family, reasoning that
the family exists for the benefit of the country -



1 and the country exists for the benefit of the
2 family.

3 This does not mean that there is no place in
4 our society for single men and women, but rather
5 that the latter should contribute a greater share
6 financially towards Canada's expenses in order to
7 equalize the burden which the family man bears.
8 The policy of 'equal work - equal pay' is well
9 established and should not be interfered with:
10 everyone - married or single, male or female, white
11 or coloured, - should receive the same wage rate
12 or salary for producing the same volume of work
13 on the same job. There should be no desire to
14 lower the standard of living of the person without
15 dependents: what we need to establish is a formula
16 whereby a person WITH dependents is able to maintain
17 the same standard of living as a person earning the
18 same salary who has NO dependents.

19 Let us look at a typical situation which
20 exists today in Canada. Smith and Jones are both
21 the same age, both single without dependents and
22 both work as machinists in the same plant earning
23 \$5,000 a year. In accordance with 1962 Canadian
24 Income Tax schedules, their Federal Income Tax
25 would be about \$610.00 per year (assuming no
26 outside income, or outside deductible feature).
27 Let us assume that Smith gets married and his
28 wife doesn't work. Smith's Federal Income Tax
29 is reduced to \$420.00 per year. A difference
30 of \$190.00 ! Smith's income after tax is now



1 \$4,580.00 per year while Jone's income after tax
2 remains at \$4,390.00. A generous government
3 department has established that Smith and his
4 wife should be able to maintain the standard of
5 living to which he had become accustomed before
6 marriage by a reduction in his income tax of a mere
7 \$190.00 per year. How preposterous can we get?

8 We could argue all day about how much money
9 Smith and his wife would require to maintain the
10 standard of living to which he was accustomed -
11 but to suggest that he could do it be merely
12 increasing his take-home pay by \$190.00 per year
13 is absurd. Perhaps a figure of \$1,500.00 per
14 year might be more realistic and for the sake of
15 argument some figure must be used. I suggest that
16 a married couple can maintain the same standard of
17 living as a single person without dependents provided
18 their income is 30% greater than that of a single
19 person. Perhaps the percentage should be higher,
20 certainly it should not be lower.

21 So far we have discussed the married couples
22 only. When children arrive, this percentage could be
23 further increased by let us say, five percent per
24 child. In fact, it would certainly not be out of
25 line to suggest that a married man with fourteen
26 children would require twice the income of a single
27 man to maintain the same standard of living. The
28 percentages mentioned above are so conservative
29 that where they err, everyone should agree, it is
30 definitely on the low side.



1 In the lower salary brackets, current
2 income tax rates are such that even if a married man
3 paid no income tax at all he would never be in the
4 position where he could maintain the same standard
5 of living as a single person earning the same
6 salary. Nevertheless, by revising the present
7 system which allows a small exemption for dependents
8 against taxable income in our income tax schedules,
9 we might be able to achieve a much fairer method
10 of assessing income tax against all Canadians.

11 I would like to propose the following simple
12 formula of dependent tax credit against income
13 tax payable:

14 "A married man receives a tax credit of 50%
15 of the tax payable or \$500.00 whichever amount
16 is greater, with a maximum credit of \$5,000.00.
17 For each child up to a maximum of five an
18 additional tax credit of 5% or \$100.00
19 whichever is greater is granted, with a
20 maximum tax credit of \$500.00 per child or
21 additional dependent."

22 This suggested marriage credit policy would
23 not achieve the same standard of living for the
24 married man as for the single man, nor would it
25 come close to the percentages required to achieve
26 this desired result as suggested in the opening
27 paragraphs of this article, but it would go a
28 long way towards improving a most iniquitous
29 situation which exists in Canada at the present
30 time.



1 Let us pause for a moment and emphasize
2 a few points:

3 First: Taxes are the price of civilization
4 and much though we dislike them, the country cannot
5 function without them. Income tax is a reasonably
6 fair method of taxation and this article does not
7 suggest any reduction in the total mount of Federal
8 Income tax collected, merely a change in basis of
9 the amount of tax levied against each individual.
10 Obviously some revisions of Federal Income Tax
11 schedules would be necessary to bring in the same
12 amount of money. All basic rates must be raised
13 slightly but if the proposed marriage credit were
14 accepted, a married man would pay less tax than at
15 present; the single man in the lower branches would
16 pay slightly more than at present and the only
17 major tax increase would occur in the tax assess-
18 ments applicable to single personnel without
19 dependents who are in the higher income tax brackets.

20 Second: In our discussion concerning the
21 amount of Federal Income Tax paid by the person with
22 dependents as opposed to the person without dependents,
23 no mention has been made of the other types of taxes
24 paid, such as sales and other hidden taxes. It is
25 perfectly obvious that a person buying the greater
26 amount pays greater sales (etc.) taxes. Therefore,
27 as the person with dependents is buying for two
28 or more, he must be paying larger amounts of sales
29 taxes and other types of taxes. From the man who can
30 least afford to pay the tax is being derived the



1 larger amount of sales and other hidden taxes.
2 This further injustice should not be allowed to
3 continue and some redress could be achieved by
4 reducing the share of Federal Income Tax the married
5 man is required to pay.

6 Third: Although the expression 'married
7 man' is used in all our examples, it is stressed
8 that single personnel with dependents should be
9 treated on the same basis as married personnel -
10 e.g. - single person with one dependent would
11 receive the same tax credit as a married man
12 without children and for additional dependents the
13 same rates as for children should apply.

14 Fourth: There may be some who claim
15 that the family allowance or baby bonus equalizes the
16 load between the married and the single man. Let us
17 stop this idle supposition at once. Family allowances
18 in no way help the married man without children, nor
19 do they help to defray the cost of bearing the
20 children. It is true that the 6 or 8 dollars per
21 month given for each child does help in some small
22 measure to meet the family budget but 72 or 96
23 dollars per child per year does not begin to meet
24 the cost of that child to the parent or guardian.
25 Have you ever tried to place a child in a foster
26 home for 8 dollars a month? That amount wouldn't
27 even feed the child, let alone clothe him, educate
28 him and meet the myriad of other expenses which are
29 incidental to raising a family.

30 The following tables give a comparison of



1 1962 tax assessments with those giving a suggested
2 marriage or dependent credit against tax payable.
3 Information contained in these tables is compiled
4 to show.

5 TABLE A - Wages or salary remaining to
6 single and married persons
7 after payment of 1962 Canadian
8 Federal Income Tax.

9 TABLE B - Suggested rates of Federal
10 Income Tax which would permit
11 a marriage credit yet obtain
12 approximately the same total
13 Federal Income Tax.

14 TABLE C - Wages or salary remaining to
15 single and married persons
16 after payment of Federal
17 Income Tax at the rates
18 suggested in Table B if a
19 marriage or dependent tax
20 credit were permitted.
21
22
23
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TABLE A

Wages or salary remaining after payment
of 1962 Canadian Federal Income Tax. **

Income after tax payment

<u>Total</u> <u>Income</u>	<u>Single</u>	<u>Married</u>	<u>Married with</u> <u>two children*</u>	<u>Married with</u> <u>four children*</u>
3,000	2,750	2,890	2,956	3,000
5,000	4,390	4,580	4,682	4,778
9,000	7,430	7,690	7,862	7,994
16,000	11,930	12,330	12,570	12,810
26,000	16,430	16,880	17,150	17,420
41,000	24,930	25,430	25,730	26,130
91,000	45,930	46,530	46,790	47,250

* Eligible for family allowance.

** Assuming no exemptions or credits other than
dependents.



TABLE B

Suggested Federal Income Tax rate
(Designed to permit a marriage credit)

<u>Total Income</u>	<u>Tax rate</u>
1,000	0 plus 20% on next 2,000
3,000	400 plus 25% on next 2,000
5,000	900 plus 30% on next 2,000
7,000	1,500 plus 35% on next 2,000
9,000	2,200 plus 40% on next 2,000
11,000	3,000 plus 45% on next 5,000
16,000	5,250 plus 50% on next 10,000
26,000	10,250 plus 55% on next 35,000
61,000	29,500 plus 60% on next 30,000
91,000	47,500 plus 65% on next 35,000
Etc.	

Note:

Marriage credit of 50% of tax payable or \$500.00
whichever is greater, with a maximum tax credit
of \$5,000. For each child up to a maximum of
five an additional tax credit of 5% or \$100.00
whichever is greater with an additional maximum
tax credit of \$500.00 per child or other dependent.



TABLE C

Wages or salary remaining after payment of
Canadian Federal Income Tax at rates suggested in
Table B. **

Income after tax payment

<u>Total Earned Income</u>	<u>Single</u>	<u>Married</u>	<u>Married with two children*</u>	<u>Married with four children*</u>
3,000	2,600	3,000	3,000	3,000
5,000	4,100	4,600	4,800	5,000
9,000	6,800	7,900	8,120	8,340
16,000	10,750	13,375	13,900	14,425
26,000	14,750	19,250	20,250	21,250
41,000	22,500	27,500	28,500	29,500
91,000	43,500	48,500	49,500	50,500

* Eligible for family allowance.

** Assuming no exemptions or credits other than
dependents.



1 A comparison of Tables A and C indicate that the
2 rates of tax suggested in Table B are not excessive
3 against the single individual and the remaining
4 take home pay should not jeopardize the single
5 individuals' present standard of living. On the
6 other hand, more recognition is given to the
7 added expenses of the family man and to the fact
8 that he is obliged to pay additional sales and
9 other hidden taxes. Although the reduction in the
10 assessments may not be as great as desired, the savings
11 involved especially in the lower tax brackets are
12 well worth while.

13 It is not claimed that the tax rate set out
14 in Table B will definitely bring in to the govern-
15 ment the same amount of money as existing rates of
16 income tax. What is claimed is that with the
17 statistical data and analysis of the Canadian pop-
18 ulation and income at their fingertips, the Federal
19 Income Tax Department can produce income tax tables
20 which provide the credits suggested for the family
21 man - and at the same time produce an amount of
22 income tax equal to that now collected. The
23 mathematical formula is sound and the tables can
24 be prepared without a major change to existing
25 Federal Income Tax rates.

26 This is not a question of making the single man
27 or woman pay a disproportionate share of the country's
28 expenses. What we are trying to do is to share the
29 expenses of family and country more equally. At
30 present the man with dependents is expected to



1 support the expenses of the country at almost
2 an equal rate in comparison with the single
3 individual without dependents, while at the
4 same time he is supporting fully the costs of
5 maintaining a family and home. This is grossly
6 unfair and something must be done to ease the
7 burden on the family - for it is the family
8 which is the bulwark of our way of life and it
9 is on the family that Canada's future depends.
10 Let's make marriage financially attractive:
11 let's give the family an even break!

